

**STRENGTHENING AMERICA'S MIDDLE CLASS:
EVALUATING THE ECONOMIC SQUEEZE
ON AMERICA'S FAMILIES**

HEARING
BEFORE THE
COMMITTEE ON
EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED TENTH CONGRESS
FIRST SESSION

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STRENGTHENING AMERICA'S MIDDLE CLASS: EVALUATING THE ECONOMIC SQUEEZE ON AMERICA'S FAMILIES

**Wednesday, January 31, 2007
U.S. House of Representatives
Committee on Education and Labor
Washington, DC**

The committee met, pursuant to call, at 10:30 a.m., in room 2175, Rayburn House Office Building, Hon. George Miller [chairman of the committee] presiding.

Present: Representatives Miller, Kildee, Payne, Andrews, Hinojosa, Tierney, Kucinich, Wu, Holt, Davis of California, Bishop, Sanchez, Sarbanes, Sestak, Loebssack, Yarmuth, Hare, Clarke, Courtney, McKeon, Castle, Ehlers, Platts, Kline, Davis of Tennessee, and Walberg.

Staff Present: Tylease Alli, Hearing Clerk; Jody Calemine, Labor Policy Deputy Director; Molly Carter, Legal Intern, Education; Alejandra Ceja, Senior Budget/Appropriations Analyst; Sarah Dyson, Administrative Assistant, Oversight; Carlos Fenwick, Policy Advisor for Subcommittee on Health, Employment, Labor and Pensions; Michael Gaffin, Staff Assistant, Labor; Gabriella Gomez, Senior Education Policy Advisor; Ryan Holden, Senior Investigator, Oversight; Lamont Ivey, Staff Assistant, Education; Brian Kennedy, General Counsel; Thomas Kiley, Communications Director; Danielle Lee, Press/Outreach Assistant; Stephanie Moore, General Counsel; Joe Novotny, Chief Clerk; Megan O'Reilly, Labor Policy Advisor; Lisette Partelow, Staff Assistant, Education; Rachel Racusen, Deputy Communications Director; Julie Radocchia, Education Policy Advisor; Michele Varnhagen, Labor Policy Director; Daniel Weiss, Special Assistant to the Chairman; Andrew Weltman, Legal Intern, Labor; Michael Zola, Chief Investigative Counsel, Oversight; Mark Zuckerman, Staff Director; James Bergeron, Counselor to the Chairman; Robert Borden, General Counsel; Kathryn Bruns, Legislative Assistant; Steve Forde, Communications Director; Ed Gilroy, Director of Workforce Policy; Rob Gregg, Legislative Assistant; Jessica Gross, Deputy Press Secretary; Taylor Hansen, Legislative Assistant; Victor Klatt, Staff Director; Lindsey Mask, Director of Outreach; Jim Paretti, Workforce Policy Counsel; Molly McLaughlin Salmi, Deputy Director of Workforce Policy; Linda Stevens, Chief Clerk/Assistant to the General Counsel; and Loren Sweatt, Professional Staff Member.

Chairman MILLER. The Committee on Education and Labor will come to order, and welcome to all of the members of the committee and to our panel and to the audience.

We are here today to discuss the economic squeeze on America's families and to learn what we can do to strengthen and grow America's middle class. This is a key priority for our committee in this Congress, and that is why this is the specific subject of our first and second hearings.

During the first hundred hours, I was pleased that two of the committee's bills designed to help hard working families passed the House with overwhelming bipartisan support. We acted to increase the minimum wage to \$7.25 an hour, a long overdue increase necessary as more families reach the middle class and to help them pay for the basic necessities. Even Wal-Mart supported the bill to increase the Federal minimum wage because it knows that every dime in increase will be put right back into the economy, and as they noted, their customers did not have sufficient funds to pay for the basic necessities.

We also acted to cut the interest rate in half on subsidized Federal student loans, a critical boost to those students trying to decide whether they can afford to take on and pay back a significant debt necessary to finance a college education today.

These are the kind of middle class concerns that we intend to focus the Nation's attention on every week in this committee and to take action to address these concerns in a way that strengthens and expands the middle class. While the business pages across America show the profits and productivity are up for many corporations, we know that that is only half of the economic story. The other half of the story is how middle class Americans are struggling to keep it all together as their health care bill, gas bills, grocery bills go up faster than their wages.

As I travel across the country, I hear from workers who are laid off from good paying manufacturing jobs and wound up with new jobs that pay far less than the ones they lost. I hear from workers whose companies just dumped their pension plans, forcing them to scramble to find another way for security. I hear from workers whose basic expenses for housing, food, education, transportation and health care are going up even while their paychecks stay about the same.

Today parents are justifiably concerned their own children are having a lower standard of living in adulthood than they have had.

In a recent poll, 59 percent of American workers say they have to work harder to earn a decent living than did workers 20 or 30 years ago. Sadly, the American economy has grown more unequal than any time since Franklin Roosevelt's New Deal. We don't have to accept the middle class squeeze as a fact of life. We can promote policies that will make work pay, help the middle class become more secure in their health care, more secure in their nest eggs and more confident of their future.

I believe that we can have a strong and growing economy that benefits everyone, not just a privileged few.

Today we are going to hear from a panel of distinguished witnesses who will talk about what has made our economy so unbalanced, what we can do to make it fair for their workers and their

families. I look forward to hearing from each of you on this issue of paramount importance.

First, I would like to yield to the senior Republican member of the committee, Mr. McKeon, for an opening statement.

Mr. McKEON. Thank you, Mr. Miller.

Chairman Miller, I want to thank you for holding this hearing today, and I welcome each of our witnesses. This committee plays a key role in policies impacting the quality of life for all Americans of all ages and of all incomes.

I am especially grateful to have six of these Americans here with us today ready to provide their testimony on the state of our consistently growing economy. Mr. Chairman, I have never been one to engage in class warfare, and I am not about to start here. I have always found that while pitting one class against another often makes for good politics, it rarely makes for good policy.

Instead, I would like to focus this morning on where we have been, where we are and where we are going from an economic policy perspective because frankly, I think Members in both parties have a good story to tell when it comes to our economy.

At the start of this decade the dot-com bubble had burst, financial events around the world compounded the problem and we found ourselves sinking into a recession. Congress responded quickly not by adding more layers to the Federal bureaucracy and micro-managing our economy back to health but by cutting taxes for every single person in this room and literally in every room in America. The years that followed have witnessed dramatic economic growth. Even after the September 11th terrorist attacks and the launch of the global war on terrorism and on that strong economic foundation, we have set into motion many important policy reforms, including several that were born right here in this very committee room.

In the wake of the corporate scandals, we enacted the first meaningful pension reforms in a generation ensuring workers' retirement savings will be there for them when they need it while restricting excessive golden parachutes, executive compensation accruals and adding stability into a system in dire need of reform. And to your credit, although coming late to the game and particularly after neglecting to offer a comprehensive pension reform plan of your own, many on your side of the aisle joined with us last summer to send the President a pension bill and send the American people a message that we are serious about protecting their retirement savings.

We have given Americans more control over their health care savings than ever before through the establishment of health savings accounts, an effort that has gained significant bipartisan traction.

Unfortunately, similar efforts to reign in out-of-control medical liability lawsuits and on this committee, in particular, to provide small businesses and their workers an easier path to access affordable health care have run into a partisan wall, but we will keep trying.

On education, we have laid the foundation for a strong workforce through the No Child Left Behind Act. We have worked together to put college within reach for low and middle income families by

extending college savings plans, making college tuition tax deductible for low and middle income families, and beginning to hold colleges accountable for their role in the college cost crises.

We began strengthening math, science, and critical foreign language programs to enhance our global competitiveness, and we have modernized our job training system to meet the new realities of the 21st century economy. Is there more work to do? Absolutely.

But anyone who ignores the progress we have made, so much of it in a bipartisan way, is more concerned with party politics than with proactive policy, and I strongly urge them to take a closer look at the facts.

More than 7 million new jobs have been added to our economy since August of 2003, spanning more than 3 years of uninterrupted job growth. The unemployment rate is holding steady at 4½ percent, lower than the average of the 1970s, 1980s and 1990s. Many workers' combined earnings of benefits have hit an all time high rising some 10 percent since the start of this decade. The average 401(k) retirement savings plan is now more than 65 percent more valuable than it was in 2002.

The pension plans of our Nation's largest employers ended 2006 with more than 100 percent of the assets needed to pay pensions indefinitely, a 20 percent increase in 4 years.

And analysts project that this year's college graduates will enter the most lucrative job market in years, with employers planning to hire some 20 percent more graduates this year than last year.

With these thoughts in mind, Mr. Chairman, I would like to include in the record two recent news articles published in the January 23rd, 2007 Wall Street Journal entitled Pensions Plans to Take Healthy Turn, and Class of 2007 Gets Plenty of Job Offers as well as a January 28th of 2007 New York Times article detailing a sharp increase in a worker's wages.

Chairman MILLER. Without objection.

[The information follows:]

[From the Wall Street Journal, January 23, 2007]

Career Journal: Class of '07 Gets Plenty Of Job Offers

By ERIN WHITE

Employers are diving back into the fountain of youth.

This year is shaping up as the strongest for college recruiting since the downturn earlier this decade, colleges report. Traditionally heavy recruiters, including management consulting firms, investment banks and accounting firms, are intensifying college recruiting efforts. They're also facing more competition from other employers in such fields as technology, consumer products, government and even nonprofits.

Employers plan to hire 17% more graduates from the class of 2007 than they got from the class of 2006, according to the National Association of Colleges and Employers. That would make this year the strongest job market since 2000-2001, the association says. More than half of the surveyed employers said they planned to increase hiring; only 5% planned a decrease. Salaries were forecast to rise 4.6%, according to another survey by the same group.

"We now again have the nice problem of having to help some of our students choose among multiple job offers," says Jack Tinker, director of recruiting at the career office of Connecticut College. Mike Hendel, interim director for the career center at Carleton College in Northfield, Minn., says he, too, is counseling students deciding among "two or three really good offers."

Behind the increased recruiting are a relatively strong economy, growing business demands and heady corporate profits. Employers created about 1.8 million additional jobs in 2006. Average weekly earnings rose 4.5%, compared with a 3.2% increase in 2005.

Some companies are also planning for future work-force needs as the baby boomers' retirement looms. Employers "are finally starting to get the message that [they] really need to do more" with college recruiting as baby boomers age, says Dan Black, director of campus recruiting for the Americas at Ernst & Young LLP.

At New York University, close to 40% of seniors have job offers, which is more at this point in the year than in any year since 1998-99, estimates Trudy Steinfeld, executive director of career development. Salaries are up about 5% to 10% since last year, and companies are offering bigger signing bonuses—up to \$10,000, she says.

At the University of Chicago, 119 companies conducted on-campus interviews with seniors during the fall quarter, compared with 93 a year earlier. Employers posted 180 jobs in that quarter, up from 135 a year before. Recruiting mainstays such as management-consulting and financial-services firms are active at Chicago, but so are nonprofits and public-service groups: About 15 such organizations have expressed interest in an April career fair, compared with none at this time last year, says Meredith Daw, co-director of career advising and planning services.

At a November job fair in Boston, the 12 sponsoring schools turned away at least five employers clamoring for space. At the University of California, Los Angeles, officials squeezed 10 additional employers into a job fair last week that they had initially limited to 100 employers. Many of the companies attended a fall fair but need more recruits.

Christopher Bothur, a Connecticut College senior, in the fall accepted a job in an analyst-training program at Deutsche Bank AG. Earlier, he had spoken briefly with the bank about a possible summer internship, but he spent the summer working for the United Nations in China.

When he returned to school, the bank called him, whisked him to New York for interviews and offered him a position that will include stints in New York, London and China. "The job kind of fell into my lap," he says. Mr. Bothur says his base salary alone will be roughly twice as much as it would have been at the think-tank jobs he was considering.

College career counselors say the tone of campus recruiting doesn't approach the dot-com era frenzy, among employers or students. Students saw older friends and siblings suffer through the downturn earlier this decade, and they understand that the job market could tank again. And while the economy as a whole is strong, sectors such as housing and autos are suffering.

One employer contributing to the rising demand on campuses is accounting and consulting firm Deloitte & Touche. The firm is recruiting about 3,300 seniors for full-time positions in the U.S. this year, up from fewer than 3,100 last year, says Diane Borhani, head of U.S. campus recruiting.

To attract candidates, Deloitte is raising salaries and signing bonuses. Full-time starting base salaries in the U.S. are up about 5% on average to as much as roughly \$60,000 in certain markets. Signing bonuses for new college hires in consulting range from \$6,000 to \$10,000 this year, up from \$4,000 to \$8,000 last year, Ms. Borhani says.

Employers also hit campuses earlier. Yum Brands Inc., which markets restaurant chains including Taco Bell and KFC, sent students welcome-back postcards and emails in August, the earliest it has ever started campus recruiting efforts. "We tried to be there literally the day that they got to school," says Misty Reich, Yum's vice president of global talent management. Recruiters and senior executives soon followed.

Companies are also trying to make their recruiting efforts more personal. The management consultancy Boston Consulting Group sent more young employees to campus this fall to talk one on one about life at the firm.

Personal outreach went a long way to recruit Wayne Vonder Heide, a 21-year-old senior at the University of Illinois at Urbana-Champaign, who recently accepted a management-training position at Kraft Foods Inc. He interviewed with about a dozen companies last fall, mostly for sales positions. "Just seeing how many jobs are out there was really encouraging," says Mr. Vonder Heide, an advertising major with a business minor. He was confident enough in his prospects that he spurned follow-up interviews with about four companies.

Around Thanksgiving, Kraft offered him a post in Cincinnati. Management trainees contacted him and the company invited him to tour the office there. He met his would-be co-workers; one took him around the city, including neighborhoods popular with young professionals. "I could really see myself getting up every day and going to this office and getting along well with all of these employees," Mr. Vonder Heide says. "That was a deciding factor."

[From the Wall Street Journal, January 23, 2007]

Pension Plans Take Healthy Turn—Rising Markets Aid Big Firms' Funds; Failure Risk Lessens

By THEO FRANCIS

After years of steep underfunding, pension plans are now healthy, thanks to several years of double-digit investment gains and rising interest rates, separate studies from benefits consultants suggest.

The pension plans of Fortune 100 companies ended 2006 with 102.4% of the assets needed to pay pensions indefinitely, according to an estimate expected to be released today by Towers Perrin, a Stamford, Conn., benefits consultant. That is up sharply from a low point of 81.9% in 2002, though still below the 125.8% recorded at the height of the stock-market boom in 1999.

Consultants and pension experts said the change suggests fewer pension plans are at risk of failing. That bodes well for workers dependent on the plans for retirement income and for the Pension Benefit Guaranty Corp., a federally run pension insurer that pays basic benefits if the plans aren't able to.

"There's no reason why their funding shouldn't have improved—everything's going in the right direction," said Jack Ciesielski, a pension-accounting expert who writes the Analyst's Accounting Observer newsletter. While some companies faced serious funding shortfalls, for many employers "it was cyclical in nature," he added.

Similar findings are echoed by a separate study of pension funding based on 2005 data, released yesterday by benefits consultant Watson Wyatt Worldwide. That study found that pensions for a group of 1,000 companies were about 91% funded in 2005, up from a little more than 80% funded in 2002.

Widespread concern over underfunded pensions and corporate decisions to freeze or cut pension benefits has helped pension legislation through Congress last year. The legislation was billed as shoring up pension plans weakened by a "perfect storm" of low interest rates and poor stock-market performance early this decade. Few provisions of the new law took effect before this year, so any improvements they may bring about aren't reflected in the estimates by the benefits consultants.

Towers Perrin's study examined the 79 companies in Fortune magazine's list of the 100 largest U.S. firms that sponsored defined-benefit pension plans. Pension plans are backed by trust funds that typically pay retirees a set amount each month for life, or a one-time payout based on that stream of payments. A plan's funded status is a measure of any gap between the fund's assets and the company's obligations under the plan.

Stock-market gains were the biggest factor in the plans' recovery, averaging about 12% in 2006. In addition, rising interest rates likely reduced plan liabilities by about 3%, Towers Perrin estimated. Interest rates determine how the company converts future pension payouts into a liability on its books today.

Company contributions also improved pension funding, with average contributions rising more than fivefold since 1999. But these contributions boosted plan funding by only about 1%, Towers Perrin said.

One factor unexamined in the study: How big a role pension freezes and cuts have played in improving pension funding. Freezing or cutting benefits reduces a company's pension liabilities, which means the existing assets cover more of the company's obligations.

Towers Perrin used publicly disclosed data for each company, including asset, liability and asset-allocation figures, and took into account subsequent market returns and interest-rate changes.

Improving plan fortunes could encourage some companies to stop contributing to their plans, as many did in the late 1990s; however, pension-industry officials say last year's legislation makes that less likely.

Separately, new pension-accounting rules taking effect this year mean companies must start reflecting net pension liabilities on the balance sheet, instead of recording them in a footnote as they have for years. Under Towers Perrin's projections, "on average, the Fortune 100 will be booking an asset" rather than a liability for their plans, said Bill Gulliver, Towers Perrin's chief actuary for human-resource services.

The transition from prior accounting rules to the new ones, however, mean that the Fortune 100 companies are likely to see a combined decrease in shareholders' equity of about \$160 billion, improved from prior estimates of \$245 billion, Towers Perrin said.

Watson Wyatt's study showed that plan funding improved by about \$10 billion in aggregate between 2004 and 2005. Investment returns improved funding by about \$114 billion, and company contributions added about \$51 billion, offset by the growth of benefits for employees in the plans, Watson Wyatt said.

"The bottom line is, things are getting better," said Mark Warshawsky, Watson Wyatt's director of retirement research and a former Bush administration Treasury official. He said preliminary estimates for 2006 show further improvement.

Still, Watson Wyatt's analysis shows that pension assets were invested about 64% in stocks, on average—meaning another sharp downturn could wreak havoc with pension funding once again.

[From the New York Times, January 28, 2007]

Looking for the Angry Populists in Suburbia

By DAVID LEONHARDT

In his confrontational response to President Bush's State of the Union address on Tuesday, Senator Jim Webb of Virginia said that he was going to focus on only two topics. One, as everyone knew it would be, was Iraq.

But before he turned to the war, the new senator spoke about something else: an economy that he said made it seem "as if we are living in two different countries." In one, stock prices, corporate profits and executive pay are rising. In the other, the middle class is barely scraping by.

Mr. Webb said the situation was reminiscent of the early 20th century, when robber barons were raking in wealth and "dispossessed workers at the bottom were threatening revolt."

It was the sort of speech that one might have expected during a deep economic slump. Yet it came instead as most workers have started receiving significant pay increases for the first time in years and as polls show that most Americans think the economy has grown stronger.

This contrast was arguably the most significant part of the speech. As they plan their strategy on Capitol Hill and begin the 2008 presidential campaign, the leaders of the Democratic Party are betting that the temporary swings of the economic cycle no longer have the political power they once did.

Instead, they say, the economic shocks of recent years—technological change, globalization, the decline of labor unions and business icons like Ford Motor Company—have left many swing voters feeling anxious and insecure about the future.

After years of fighting losing battles against tax cuts, Democrats argue that this economic anxiety has altered the political landscape, making swing voters open to a new role for government—a form of what Representative Rahm Emanuel of Illinois has called "suburban populism."

With issues like energy policy, immigration and health care having gone largely unaddressed in recent years, Democrats see a way to define themselves as the party that can help Americans survive the 21st-century economy.

An unanswered question, though, is whether suburban populism can still have appeal during good economic times.

"The little ups and downs of the economy are not what's bothering the average American, as much as it is the feeling that there are large forces that buffet them around," said Senator Charles Schumer of New York, whose book laying out an agenda for the party was published last week. "In the past, the attitude was, 'Get government out of the way.' And now it's, 'Gee, I may need it.'"

Amy Klobuchar, a freshman senator from Minnesota, pointed out that her state had one of the strongest economies in the country, yet she still based her winning campaign largely on people's economic worries. "They feel insecure," Ms. Klobuchar said last week. "And the point of this is, they're right."

This strategy certainly has risks. Tax cuts—with a heavy dose of optimism thrown in—have been a much better political bet than populism for decades now, and Republicans are sticking to this script. During his address last week, Mr. Bush described the economy as being "on the move," and he is scheduled to visit Peoria, Ill., this week to call attention to recent wage gains. Republicans are pushing for an extension of the tax cuts passed during Mr. Bush's first term that they say are a major cause of the current boom.

The economy emerged from a recession in late 2001, after the first tax cut went into effect, but wages for most workers still did not keep up with inflation for much of the next few years. Only in recent months has that changed.

In 2006, the average hourly pay of rank-and-file workers, who make up about four-fifths of the work force, rose 4.2 percent, while the consumer price index increased only 2.6 percent. The net result—an inflation-adjusted increase of 1.6 percent—was a bigger annual raise than any that workers received from the late 1970s to the mid-90s.

The direction of wages has historically been one of the best predictors, if not the best, of the public mood, and it, too, has been brightening. In a Gallup Poll con-

ducted in mid-January, the share of respondents calling the economy excellent or good—52 percent—reached its highest level since the Clinton administration.

But even with the recent increases, the real hourly pay of rank-and-file workers has risen only 3 percent since Mr. Bush took office, according to the Bureau of Labor Statistics. Over the same span, productivity—that is, the value of what the economy produces per hour—has risen 18 percent.

Except for a few years in the late 1990s, in fact, pay increases have been modest for most of the last three decades, which appears to be contributing to the anxiety. In exit polls on Election Day, fewer than one in three people said they expected life for the next generation of Americans to be better than life today.

But even if suburban populism has some appeal, Democrats have been less clear about how to translate it into policy. During their first weeks in control of the House, they have passed bills to raise the minimum wage, to cut the interest rate on federally subsidized loans to college students and allow government to negotiate with pharmaceutical companies over the cost of drugs sold through Medicare.

But none of the bills has yet passed the Senate, and even if they do, they are unlikely to have a big effect on most middle-class families—the target audience of the new suburban populism.

Some Democrats, in the party's center and on the left, are starting to push for broader ideas. In his new book, Mr. Schumer calls for biometric employment cards to reduce illegal immigration and a crackdown on tax evasion by the wealthy, among other measures. Tom Vilsack, the former Iowa governor who is running for president, is arguing for a push on new energy technology partly to “elevate our economy above global competition.”

It is still not clear how much can be done by a party that, for at least another year, will lack a clear leader. In his speech last week, Senator Webb cited two populist role models, Andrew Jackson and Theodore Roosevelt, both of whom were presidents, not Congressional leaders.

But the coming year will give the party's leaders a chance to hone its message—and to see how long the current economic boom will last.

Mr. McKEON. Now is this not utopian, Mr. Chairman? Most definitely not. But at the same time, it is unmistakable proof that our pro-growth policies are strengthening our economy, creating jobs and spurring investment, and we are doing all of this without adding new layers of government and disguising it as innovation or competitiveness. Rather, we have unleashed the entrepreneurial spirit that drives Americans and filled in the gaps with meaningful reforms that are making a real difference for students, workers, and retirees.

That is something to be proud of, Mr. Chairman, and indeed that is something to build upon.

[The statement of Mr. McKeon follows:]

Prepared Statement of Hon. Howard P. “Buck” McKeon, Senior Republican Member, Committee on Education and Labor

Chairman Miller, thank you for convening today's hearing, and I welcome each of our witnesses. This Committee plays a key role in policies impacting the quality of life for all Americans, of all ages, and of all incomes. I'm especially grateful to have six of these Americans with us today, ready to provide their testimony on the state of our consistently growing economy.

Mr. Chairman, I've never been one to engage in class warfare, and I'm not about to start here. I've always found that, while pitting one class against another often makes for good politics, it rarely makes for good policy. Instead, I'd like to focus this morning on where we've been, where we are, and where we're going, from an economic policy perspective * * * because, frankly, I think Members in both parties have a good story to tell when it comes to our economy.

At the start of this decade, the dot-com bubble had burst, financial events around the world compounded the problem, and we found ourselves sinking into a recession. Congress responded quickly, not by adding more layers to the federal bureaucracy and micromanaging our economy back to health, but by cutting taxes for every single person in this room and—literally—in every room in America. The years that followed have witnessed dramatic economic growth, even after the September 11th

terrorist attacks and the launch of the Global War on Terrorism. And on that strong economic foundation, we've set into motion many important policy reforms, including several that were born right here, in this very Committee room.

In the wake of the corporate scandals, we enacted the first meaningful pension reforms in a generation—ensuring workers' retirement savings will be there for them when they need it, while restricting excessive “golden parachute” executive compensation agreements and adding stability into a system in dire need of reform. And to your credit, although coming late to the game and particularly after neglecting to offer a comprehensive pension reform plan of your own, many on your side of the aisle joined with us last summer to send the President a pension bill—and send the American people a message that we're serious about protecting their retirement savings.

- More—we've given Americans more control over their health care savings than ever before, through the establishment of health savings accounts—an effort that has gained significant bipartisan traction. Unfortunately, similar efforts to rein-in out-of-control medical liability lawsuits and—on this Committee, in particular—to provide small businesses and their workers an easier path to access affordable health care have run into a partisan wall. But, we'll keep trying.

On education, we've laid the foundation for a strong workforce through the No Child Left Behind Act. We've worked together to put college within reach for more low- and middle-income families by extending 529 college savings plans, making college tuition tax deductible for low- and middle-income families, and beginning to hold colleges accountable for their role in the college cost crisis. We've begun strengthening math, science, and critical foreign language programs to enhance our global competitiveness. And we've modernized our job training system to meet the new realities of a 21st Century economy.

Is there more work to do? Absolutely. But anyone who ignores the progress we've made—so much of it in a bipartisan way—is more concerned with party politics than with proactive policy. And I'd strongly urge them to take a closer look at these facts:

- More than seven million new jobs have been added to our economy since August 2003, spanning more than three years of uninterrupted job growth;
- The unemployment rate is holding steady at 4.5 percent—lower than the average of the 1970s, 1980s, and 1990s;
- Workers' combined earnings and benefits have hit an all-time high, rising some ten percent since the start of this decade;
- The average 401(k) retirement savings plan is now more than 65 percent more valuable than it was in 2002;
- The pension plans of our nation's largest employers ended 2006 with more than 100 percent of the assets needed to pay pensions indefinitely—a 20 percent increase in four years; and
- Analysts project that this year's college graduates will enter the most lucrative job market in years—with employers planning to hire some 20 percent more graduates this year than last year.

With these thoughts in mind, Mr. Chairman, I'd like to include in the record two recent news articles published in the January 23, 2007 Wall Street Journal entitled “Pension Plans Take Healthy Turn” and “Class of '07 Gets Plenty Of Job Offers,” as well as a January 28, 2007 New York Times article detailing a sharp increase in worker wages.

Now, is this utopia, Mr. Chairman? Most definitely not. But at the same time, it is unmistakable proof that our pro-growth policies are strengthening our economy, creating jobs, and spurring investment. And we're doing all of this without adding new layers of government and disguising it as “innovation” or “competitiveness.” Rather, we've unleashed the entrepreneurial spirit that drives America—and filled in the gaps with meaningful reforms that are making a real difference for students, workers, and retirees. That's something to be proud of, Mr. Chairman—and indeed, that's something to build upon.

[The statement of Mr. Altmore follows:]

**Prepared Statement of Hon. Jason Altmore, a Representative in Congress
From the State of Pennsylvania**

Thank you, Chairman Miller. It is a great honor for me to serve on the Committee this Congress and I look forward to working under your leadership to address some of the most important questions facing our country.

I would like to extend a warm welcome to all our witnesses. I thank you for coming to Washington to testify and am eager to hear your views on how we might best help the middle class.

The purpose of today's hearing is to examine the degree to which the middle class, the backbone of America, is being squeezed out and left behind. This is a very real issue that, as I am sure all my colleagues know, is among Americans' top concerns. I hear it everywhere I go back in my district.

Where once a family on a single income could pay for a college education and count on reliable health care and retirement benefits, now families with dual incomes are stretched to their very limits and leveraged to the hilt. Even as they work harder than ever, the middle class's purchasing power is diminishing. Paying for their children's college tuition is, for most families, merely a pipe dream. Likewise for affordable family health care benefits and a secure retirement.

Mr. Chairman, this is an untenable situation. America's working families deserve more. I am fundamentally committed to ensuring the long term health and viability of the American middle class, and I know this Congress is as well. We will work tirelessly to improve access to higher education and healthcare, to secure Americans' retirement benefits, and to guarantee that all Americans share in America's wealth.

Thank you, Mr. Chairman, for your leadership on these issues, I appreciate the opportunity to work with you. I yield back the balance of my time.

[The statement of Mr. Hare follows:]

Prepared Statement of Hon. Phil Hare, a Representative in Congress From the State of Illinois

Thank you Mr. Chairman. America's middle-class families are under great economic strain. Average incomes have become flat and prices for basic needs such as healthcare, housing, energy and education have skyrocketed.

Families are not able to save for retirement or prepare for unknown risks or crises. Therefore, our middle class is in great danger of eroding, which will have disastrous impacts not only on the U.S. economy but also on the global economy.

It was my goal in coming to Congress to try and eradicate the fear workers have of losing their jobs to economic factors; make it easier for families to send their kids to college; and ensure everyone has access to affordable healthcare. But, how do we do that? I believe there is no one solution, but Congress must take measures to create economic stability and security through education, income equality and business investment in American employees and products.

Questions for the panel

- Mr. Hacker, how do we reverse The Great Risk Shift and do we need to tackle the superficial things first, like lowering healthcare costs, or address the entire economy as a whole?

- Mr. Hacker, you talk about the erosion of hope and opportunity in your statement, which Ms. Miller also speaks to in her remarks about struggling to live in the middle class. There have also been studies cited today that this sentiment is widespread across the United States. How can Congress restore hope in our workforce and create opportunities not yet realized?

- Mr. Weller, why are wages stagnant and why are businesses not investing in their employees like they used to? What kind of incentives can we provide businesses to become more employee or American invested?

- Ms. Furchtgott-Roth, your testimony cites strong economic growth statistics and a positive prognosis for the future. However, this is in direct conflict with the statements of the other panelists, especially Ms. Miller who in representing the middle class today. In fact many of the constituents I talk to in my district do not believe claims about a strong U.S. economy. Which outlook are we to trust and do you think this conflict in our information is a cause of the problem?

[The statement of Mr. Kucinich follows:]

Prepared Statement of Hon. Dennis J. Kucinich, a Representative in Congress From the State of Ohio

Mr. Chairman, as we will hear from today's witnesses, families across the nation are experiencing increased financial pressures and too often failing to reap the rewards of their own productivity. Many middle class workers who have labored tirelessly to support their family are now faced with job insecurity and financial con-

cerns. Too often, the overriding themes of many workers lives have become themes of increasing debts and diminishing protections. The pressure they now face largely stems from circumstances beyond their control, circumstances that we as Members of Congress must work to rectify.

Many families of middle class workers now teeter on the edge of economic stability. Every American can attest to the growing costs of necessities such as home heating oil, child care, and healthcare. As wages have failed to keep pace, many workers are placed in a precarious financial situation. Forced increasingly to rely upon loans and credit cards to make ends meet, families can find themselves one extended hospital stay or temporary job loss away from bankruptcy. The system designed to protect families in these situations is broken, and must be mended by this Congress.

Outsourcing, once primarily a concern for manufacturing jobs, is now a growing concern for white collar jobs as well. Workers in my home state of Ohio have long known the consequences for workers when jobs are shipped overseas. The effects of trade policies such as NAFTA have led Ohio to post the sixth highest unemployment rate in the nation in the most recent numbers reported by the Bureau of Labor Statistics. Workers and their families are left in an insecure world, with diminishing protections and in need of a helping hand.

No longer can our nation turn a blind eye to the effects of lax enforcement of labor laws, inadequate social support systems and faulty trade policies. This Congress must take the necessary steps to ensure that workers and their families are on stable economic ground. We have the ability to better protect and aid our constituents, and we must move towards the goal of security for workers as we begin this new Congress.

[The statement of Ms. Sánchez follows:]

Prepared Statement of Hon. Linda T. Sánchez, a Representative in Congress From the State of California

Mr. Chairman, I thank you for convening this hearing on the state of the American middle class. Unfortunately, the middle class is suffering the consequences of years of fiscally irresponsible economic policy. For working and middle class Americans, our economy presents greater obstacles to success than in previous decades.

The dire straits that many middle class families find themselves in are simply not in line with the success and growth in the economy overall. In so many areas, the middle class is besieged. But in the past twelve years, Congress has abandoned its responsibility to defend hard-working American families—building obstacles to their progress and blocking Democratic efforts help Americans help themselves.

Worker productivity is at historic levels: American workers today produce 70 percent more goods than they did at the end of the 1970s. As a nation, America is richer than it was a generation ago. Incongruously, the workers responsible for American increased productivity and economic growth have not fairly shared in the wealth they have created. As middle class families are squeezed between stagnant wages and rising prices for homes, education, and healthcare, the income disparity between them and the richest 5 percent of families has widened. I salute you, Mr. Chairman for taking on the challenge of closing this gap.

Financial security has also declined for many American families. The majority of American families cannot weather an emergency without tapping into the equity in their homes—if they are lucky enough to be homeowners. Many middle class families have had to borrow more money just to make ends meet. Personal savings have depleted, making middle class families vulnerable to even brief periods of unemployment or substantial emergency medical costs.

Our healthcare system is in crisis. About 47 million Americans, including millions of children, still lack access to health insurance. Even for many of the insured, vital goods and services, including prescription drugs and annual check-ups, remain uncovered. Working families should not have to choose between paying for their medical bills and other necessities. Health care spending is expected to continue to rise well above inflation for years to come. Unless we take action to control these soaring costs, millions more American families will lose access to appropriate care that can reduce emergency and acute care costs later.

One traditional path Americans have used to improve their circumstances and reach the middle class, the labor union, has been hampered and hindered. Workers who wish to organize themselves to bargain for better pay and benefits and improve their working conditions have faced severe challenges. Too many corporate employers engage in systematic and illegal campaigns of harassment and intimidation

against workers who want to band together to achieve common interests and better their lots in life. This practice has even spawned its own small industry of private "consulting" firms whose sole purpose is to coach employers in methods, both legal and illegal, of preventing workers from exercising their right to choose to form unions. I look forward to addressing this alarming development so that more Americans are free to achieve the dream of economic independence.

We must also work to ease the burden that higher education costs pose to middle and working class families. Financial barriers should never prevent a qualified student from going to college, and that is why America has long since made a commitment to help all Americans afford a higher education. Student financial aid is one of the best investments that this country can possibly make. There is no better way to lift people out of poverty, build strong communities from the inside, and give our youth hope for their future than by providing an affordable education.

Fair wages are essential to a just society and to the growth of the middle class. In this regard, the 110th Congress is off to a great start. We recently passed the Fair Minimum Wage bill to increase the minimum wage to a more realistic \$7.25 an hour by 2009. But that bill is just a down payment. I look forward to working with the Members of this Committee to help hard-working Americans rise up and improve their lives and lifestyles.

Our agenda in this 110th Congress must focus on working families. America's middle class is working hard and producing more than ever, yet is faced with an unprecedented burden of costs and expenses. Our success as a country depends on them; their success, right now, depends on us. Let's work to ease the burden on America's hard-working middle class, protecting the security and opportunity of the American dream.

[The statement of Mr. Sarbanes follows:]

**Prepared Statement of Hon. John P. Sarbanes, a Representative in
Congress From the State of Maryland**

Mr. Chairman, I want to thank you for holding this hearing to examine the growing struggle of America's Middle Class. I am new to the Congress and to this Committee, but I am not new to the plight of the Middle Class. In my prior career in health care and education, I have witnessed how the most basic of opportunities are increasingly out of reach for those families and communities that have traditionally formed the bedrock of American society.

America has long been known as the land of opportunity. The idea of the American Dream is that no matter your background, if you are willing to work hard and play by the rules, you will be able to provide for yourself and your family. In recent years, it seems that this promise, this bargain that has long made the American worker the most innovative and productive worker in the world, has begun to wear thin.

I want to share with the Committee a story of a woman I met during my campaign. She is the mother of three college age students, a professional woman who commutes from Odenton, Maryland to her job at one of the federal agencies here in the District. She is the Middle Class. She told me she doesn't know how her three children will be able to afford college. Then she looked me right in the eye and said something that sent a chill up my spine. She said "I did everything they told me I was supposed to do. My husband and I worked three jobs between us, we saved our money, and we told our kids if you work hard and study, you can make it in America. And now we can't afford to pay for college."

In this one statement, we hear what so many Americans are saying, which is we worked hard and played by the rules, and we believed in an America that would reward that, and now we've discovered that it's all a cruel trick.

Mr. Chairman, with great facility, this Administration has invoked the American dream while cynically advancing an agenda that disproportionately benefits the wealthiest among us and calls on everyone else to work harder for less. The American people know a bad deal when they see one. And they are counting on this Congress to restore the bargain with the Middle Class.

I'll close, Mr. Chairman, by noting this, and it is something we should take to heart as representatives who have been called upon to serve. In making policy, we should always consider: How does this affect the majority of Americans? How does this impact the working families of America? If we keep those fundamental questions in mind as we do our jobs, we will make good public policy and we will build back a strong and vibrant Middle Class. Thank you, Mr. Chairman.

Chairman MILLER. I thank the gentleman.

Our panel this morning is a distinguished group of individuals. We will begin with Jacob Hacker, who is a Professor of Political Science and Resident Fellow of the Institution of Social Policy Studies at Yale University. He is also a Fellow of the New America Foundation, a former Junior Fellow of the Harvard Society of Fellows. He is the author of several books. The title of his most recent book is *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement*. Currently he is heading a Social Science Research Council project and cochairing the National Academy of Social Insurance's 2007 conference. His articles and opinion pieces have appeared in the *American Political Science Review* of *American Prospect*, the *Boston Globe* and the *New York Times*.

Rosemary Miller currently works as a flight attendant for a major airline based in San Francisco. She has completed two Bachelor's Degrees and a Master's and chose to go to work as a flight attendant in 1990 because of the opportunity to structure her schedule, maximize the time spent at home raising two children as well as the genuine love of the profession. Rosemary is the single mother of two children and lives in Reno, Nevada, having to commute to San Francisco for her flight assignment.

Eileen Appelbaum is a Professor and was Director of the Center for Women in the Workforce in March of 2002. She was promoted to Distinguished Professor in July 2006. Formerly she was a Research Director at the Economic Policy Institute here in Washington and a Professor of Economics at Temple University. She has studied both high road and low wage employers. She is the author of, among other books, *The New American Workplace and Manufacturing Advantage*. She has recently published a report, "Achieving a Workable Balance," which examines employers' experiences and employee leaves and turnovers. Dr. Appelbaum has published widely on the economic developments in the U.S. and other countries and has authored numerous articles on the workforce, part-time employment, the service sector of the economy and the labor markets experience for women.

Diana Furchtgott-Roth is a Senior Fellow at the Center for Employment Policy at the Hudson Institute here in Washington, where she was formally the Chief Economist of the Department of U.S. labor from February of 2003 to April of 2005. Previously she served as the Chief of Staff of the President's Council of Economic Advisers and she is a weekly economic columnist with pieces published in the *Washington Post*, the *Financial Journal*, *The Wall Street Journal*, the *Los Angeles Times*, among others. And her area of expertise is in labor economics tax policy and economic regulation.

Kellie Johnson is the President of ACE Clearwater Enterprises in Torrance, California. ACE Clearwater is a metal forming company manufacturing formed and welded assemblies for the aerospace and power generation industry. Ms. Johnson joined the family business of ACE Clearwater Enterprises in 1984, working in all areas from purchasing to production control. Ms. Johnson was promoted President in 1989 and by 1995 they doubled the annual sales to over \$20 million. In 1999, her company was named one of America's top 25 small manufacturers by *Industry Week Magazine*.

Ms. Johnson sits on the Board of Directors on the National Association of Manufacturers and was named a member of President Bush's Manufacturing Council in March of 2006.

Christian Weller is a Senior Economist for the Center of American Progress, where he specializes in Social Security and retirement income, macroeconomics and the Federal Reserve and international finance. Prior to joining American Progress, he was on the research staff at the Economic Policy Institute, where he remains a Research Associate. Dr. Weller has also worked for the Center for European Immigration Studies at the University of Bonn, Germany, the Department of Public Policy at the AFoL/CIO here in Washington. Dr. Weller has been a frequent guest on news programs and all of the major networks, and he holds a Ph.D. In economics from the University of Massachusetts at Amherst.

Welcome to the committee.

We will hear your testimony. We will begin with an initial 5-minute presentation by each of the witnesses. The light will be green and then it will go to, if everything works right, it will go to yellow which suggests you might want to start about wrapping up, and then red, of course, is at the end of the 5 minutes. We will allow you to complete a thought and a sentence so it will be coherent.

And Jacob, we will begin with you.

STATEMENT OF JACOB HACKER, PH.D., PROFESSOR, YALE UNIVERSITY

Mr. HACKER. Thank you and good morning, Chairman Miller, Ranking Member McKeon, and members of the committee. I am honored to speak with you today about the economic condition of the American middle class.

Without mincing words, I believe that the condition can be described as serious and unstable. Over the last generation, in nearly every facet of middle class economic life, health insurance, pensions, job security, family financial economic risk has shifted from the broad shoulder of government and corporations onto the backs of American families. I call this transformation the great risk shift, and I think it is at the heart of the economic anxieties that many middle class Americans feel.

The United States, as you know, has a distinctive framework of economic security, one that relies heavily on employers to provide essential social benefits. But today this framework is eroding and risk is shifting back onto workers and their families. Employment based health insurance has cracked substantially, leaving nearly one in three non-elderly Americans without coverage for some time every 2 years.

Meanwhile, even as pension coverage has stagnated, there has been a dramatic movement away from traditional guaranteed defined benefit plans towards individual account style, defined contribution plans which leave much of the risk and responsibility of retirement planning on workers themselves.

We hear much today about inequality. The growing gap between the rungs on our economic ladder. But the shift that I am talking about is better described as insecurity, the growing risk of slipping from the ladder itself, and insecurity is clearly what more and

more Americans feel. In an election night policy commissioned by the McArthur Foundation—excuse me—the Rockefeller Foundation last year, fully three-quarters of voters, Republicans and almost as large a proportion of Democrats, said they were worried about their overall economic security.

Now let me emphasize that this is—these are not just concerns or problems of the poor or poorly educated. Insecurity today reaches across the income spectrum, across the racial divide, across lines of geography and gender. Increasingly, all Americans are riding the economic roller coaster that was once reserved for the working poor.

For example, personal bankruptcies and home foreclosures are stunningly more common today than a generation ago, and most who experience these dislocations were in the middle class before they did. Indeed, the segment of the population most vulnerable to these trends are families with children, in part because they are drowning in debt. In 2004, personal debt exceeded 125 percent of income for the median, married couple with children.

We will hear more at this hearing about the squeeze between income and expenses that helps account for rising middle class debt.

But another factor to consider is that incomes themselves have become more unstable. Research I have done using the Panel Study of Income Dynamics, a study that has tracked thousand of families from year to year since the 1990s, shows that not only have the gaps between the rungs on our economic ladder increased, what has also increased is how far people have slipped down the ladder when they lose their financial footing. For example, a recent study shows that a chance that Americans will spend short periods in poverty has increased substantially since the 1970s for every age group. Now it is common to say that trends like these either cannot be addressed or that addressing them will hurt our economy. I think both claims are false.

The great risk shift is not an inevitable occurrence. In an economy as rich as ours there is really no compelling reason why we could not shore up and update some of the buffers that protect families from economic risk to help them prosper in our increasingly dynamic, increasingly flexible and, yes, increasingly uncertain economy.

Which brings me to the second misleading claim, that providing Americans with a basic foundation of security will drag our economy down. We cannot and we should not ensure Americans against every risk they face, but it is a grave mistake to see security as opposed to opportunity. We give corporations limited liability, after all, precisely to encourage entrepreneurs to take risks. If the middle class are to make the investments necessary to thrive in our new economy, they need an improved safety net. The American dream. The economic promise of this great Nation is about security and opportunity alike, and ensuring the vibrancy of that dream will require providing security and opportunity alike.

Thank you.

Chairman MILLER. Thank you.

STATEMENT OF ROSEMARY MILLER, FLIGHT ATTENDANT

Ms. ROSEMARY MILLER. Thank you, Chairman Miller, for inviting me to this important hearing on the challenge facing the middle class in this country. It is an honor and privilege to be here today. Again, my name is Rosemary Miller.

Eight weeks ago I began my 18th year as a flight attendant. In 1990 I set aside my Master's and Bachelor's Degree and my career in education and chose to become a flight attendant because it was a profession that would allow me more time at home and with my children, and for most of my career I have been able to balance the requirements of the demanding full-time job with the needs of an active family.

However, in the past several years the airline industry employees have been at the forefront of a trend that is repeating. It is throughout our economy. We are working longer and longer hours for less and less pay. We have seen our benefits slashed simply to keep the most basics of health care. Our pension plans have been frozen or terminated, and our employers have used bankruptcy laws to shred union contracts, turning back the clocks on decades of progress we have made on turning our jobs into decent, stable careers.

Since entering bankruptcy, my employer is imposing drastic wage and benefit reductions that include requiring me to work 20 percent more hours for 40 percent less pay. I am away from home so often that I am absent from many of the important events in my girls' lives that I vowed I wouldn't miss, and I am so angry and frustrated that I will have withdraw the very small sum I was able to set aside for the beginning of my girls' college careers and use it to pay the mortgage instead.

I would, however, like to emphasize that I am not here today just to speak for myself or my industry. I am here to speak on behalf of all of the workers of the middle class, your constituents. I could be a nurse sitting here today. I could be a firefighter, a police officer, electrician, a plumber. We are the people who install your cable TV, who truck your groceries from farms to supermarkets, who check you into your hotels and who teach your kids. We are the city and county civil servants who run your communities, the bus drivers who get you to work every day, and we are here to impress upon you what it is really, really like in this country's current economy.

Some economists and bureaucrats in Washington tell us that the numbers show the economy is growing, unemployment is low, and things look rosy. Well, those numbers don't show the whole picture. The reality is that middle class Americans are under tremendous strain. We are watching as our wages plummet from 10 years ago and more. We are watching our benefit packages strain and our pensions disappear. Every single day we are having to choose between a dentist appointment and the electric bill, between prescription medication and groceries, between braces for our kids or new brakes for our one aging car.

Please consider me for just these 5 minutes to be the face and voice of millions of Americans who can't be here today, for the woman with cancer who says the thought of the senior executives at my company taking bonuses at the same time they are demand-

ing a 40 percent wage cut from me while I am literally fighting for my life makes me sicker than the cancer ever has; the pilot with over 30 years of experience who is outraged that when he began with his airline there were four senior vice presidents on the payroll and at last count there were 37; the woman whose husband lost his job of 28 years to outsourcing and had to start over for 7.75 an hour. I could spend hours telling you these stories, but I know I need to move on.

What do we, the middle class workers of this country, think is wrong? Well, we think the executive compensation packages that are wildly disproportionate to the contribution that these employees make to the overall health is wrong; that a CEO can terminate all of the company employees' pensions while keeping his own \$4.5 million one is wrong. Allowing corporate robber barons to reward themselves with pension bonuses upon bringing the company successfully through bankruptcy is wrong. "successfully" is a horrible choice of words. How can it be successful when so many employees' livelihoods are shattered in the process?

The average worker in this country has to battle for just a modest cost of living increase while CEOs who in the 1960s made 20 times what a worker made now makes 400 times as much. That is not just wrong, it is obscene.

What else is wrong?

Bankruptcy laws. Something has to be done about health care. College costs, pension plans. I have items to say on these but I know I need to sum up.

So what I would like to say is ask you to notice one thing. We are people who live modest lifestyles. We are not here in our remarks today to ask for new boats or a vacation home in Aspen or luxury cars. We are not asking for a 30,000 square foot home or cosmetic surgery for a nicer nose. We are just here to tell you that we need livable wages. We need a home that we can own, affordable health care, comfortable retirement, security and reasonable means to provide for our children's education. It is unconscionable to me that in this country of all others it is such a struggle to simply live modestly.

I know that there are many issues facing our government today, but when you, the Members of Congress, walk onto an airplane or check into a hotel or send your kids to school, when you go to the grocery store or pick up the phone to call police, you expect us to be there to do our jobs. Now we are asking you to do yours, which is listen to us and hear us not because we are Democrats or Republicans or Independent or whatever, listen because we are the vast majority of tax paying Americans. We are your neighbors, we are your friends, we are your own family. And we are here to tell you that we are having a really, really hard time out here.

Thank you again for inviting me to testify. I would be happy to answer any questions.

Chairman MILLER. Thank you.

**STATEMENT OF EILEEN APPELBAUM, DIRECTOR, CENTER
FOR WOMEN AND WORK, RUTGERS UNIVERSITY**

Ms. APPELBAUM. Thank you very much for inviting me to speak to you today.

Despite strong productivity, growth and expanding economy, middle class families are caught in an economic squeeze. Incomes have not kept pace with rapidly rising health, tuition and housing costs, and in fact we are 5 years past the end of the last recession and it is only now that middle class families see their incomes rising back to the level they had achieved prior to that recession.

To keep up their living standards, middle class families are working more hours and so they are caught in a time squeeze as well as caught between the demands of trying to be responsible employees and the needs of being responsible family members.

Recent productivity growth in the U.S. has been nothing short of remarkable. We have had really exceptional productivity growth. In the boom years from 1995 to 2000, productivity and real median family incomes rose together. But since 2000, despite the fact that productivity has continued to increase, real wages have not increased at the same pace. In fact, they have been largely flat, increasing only slightly in the last 6 years.

The result is that we have a widening gap once again between productivity growth and wage growth. We have been here before and we know how the story ends and it is not a pretty end.

The main reasons for this disconnect between wage growth and productivity growth are not that difficult to identify. This committee has dealt with some of them already. The decline in the real value of the minimum wage has undermined the floor that supports middle income earnings. The unionization has left middle class Americans with no bulwark against greed in the new winner-take-all economy. Difficulties organizing unions have left many workers without effective representation or voices in the workplace. Labor markets, where employers and employees once met to negotiate over the distribution of the economic pie, are today viewed as a tournament with many losers and just a few winners, symbolized by the unseemly increase in CEO pay.

Many of the occupations that are projected to experience large increases in employment over the next 10 years are not footloose. They are not going any place else, and yet they pay very low wages. The reason is that employers are able and are in fact shifting the risks of an uncertain marketplace onto their most vulnerable employees, as Dr. Hacker has pointed out. The consensus politics of the old Keynesian model has broken down because the interest of today's multinationals no longer coincide with the national interest in rising incomes, a growing middle class and a competitive domestic economy, and the accelerated decline of manufacturing capacity in the past 5 years has not only eroded incomes, but it has undermined our ability to compete in world markets. We have a huge negative trade balance that threatens not only the U.S. economy but the economic stability of the world economy. Even the IMF is advising us on this particular topic.

It is only in the last few months that average group real wages have begun to rise. We have seen an increase in the last couple of months in median wages, but middle class families are still way behind. Productivity increase in the last 5 or 6 years has risen by 18 percent while hourly wages are up just 3 percent, and this increase in hourly wages is dwarfed by the increase in corporate profits. But

my concern is that even this small advance in middle class wages is likely to be short lived.

I want to point to a couple of storm clouds on the horizon that threaten not just middle class incomes, but are a challenge for the sustainable prosperity and growth of the economy itself.

The first, which you may or may not have noticed, is that productivity growth has slowed down considerably. After 10 years of substantial growth, if you look at the third quarter of 2005, the third quarter 2006, the latest data that we have, that increase of productivity in that year is down to 1.5 percent. That is where it was from '73 to '95, in that era of slow productivity growth. This is a problem that we are going to have to think about how we are going to confront. The busting of the housing bubble has already shaved a point or so off of GDP growth in 2006 and threatens to do more in 2007.

There is going to be a correction to the ballooning trade deficit. If you want to ask me questions about it, I will answer. Let me just say that working families need policies that support them in the roles as workers and as caregivers that make the domestic economy more competitive, that sustain growth and prosperity. We need a renewed commitment to full employment. It is true that unemployment is low now, but we do face storm clouds and we must be sure that we have that commitment.

The correction to our ballooning trade deficit when it comes will result in rising prices and declining real wages for American workers. If we fight that inflation with rising interest rates, we will have rising unemployment. And so I hope that we will move in this Congress towards policies that shore up the U.S. expansion as they enable the middle class to share in the economic fruits.

Thank you.

Chairman MILLER. Okay. Thank you.

**STATEMENT OF DIANA FURCHTGOTT-ROTH, DIRECTOR,
CENTER FOR UNEMPLOYMENT POLICY, HUDSON CENTER**

Ms. FURCHTGOTT-ROTH. Thank you very much for inviting me to testify today.

America's economy is in superior shape today. We have got the news that GDP grew at 3.5 percent last quarter and 3.4 percent for the entire 2006, even higher in 2005. And this growth was achieved in spite of high oil prices and in spite of talk of a housing slump.

Over the past year, the economy has created 1.8 million jobs, of which 1.6 million are in the private sector. This Friday I can assure you that more job gains will be announced. And the Bureau of Labor Statistics will announce that an extra 810,000 jobs, approximately, will be added to the count of payroll jobs that were created between April 2005 and March 2006.

The unemployment rate is only 4.5 percent, down from 4.9 percent a year ago and lower than all industrialized countries except Japan. The number of unemployed was 6.8 million last month compared with 7.3 a year earlier. So we are making progress. Many people say that the jobs created have just been hamburger flipping jobs, but this is not borne out by the data. Employment in industry that pay above average wages, such as professional and business

services and educational and health services, are expanding rapidly.

Why then in this strong economic picture is there talk of economic security and dissatisfaction? This economic insecurity can't be proved with the data. According to Karlyn Bowman of the American Enterprise Institute, the Nation's leading analyst of policy rules, people are feeling secure about all aspects of the economy with the exception of health care. In other words, other than health care, people feel that their economic well-being is strong.

One reason for the media angst is the perception that the gains are not distributed equally and some people are falling behind, but the latest Consumer Expenditure Survey shows that differences in per person spending by the lowest and highest 5 percent of income earnings are dramatically different. Spending is very important because it determines our current standard of living and our confidence in the future. It shows how much money Americans have.

The top 50 percent of earners pay 97 percent of income taxes so all of their income isn't available for income. The lower income Americans at the bottom, the bottom percentiles receive food stamps, housing subsidies, Medicare and Medicaid. So they consume more than their income. Middle class Americans have assets in pension and individual retirement accounts that are not included in income. Therefore, spending is a far better guide to well-being than pre-tax income. Last year Americans in the top group spent two and a half times as much as the bottom group on a per person basis and 1.8 times as much as the middle class. This is not major inequality. And some households with low incomes are not poor. A full 30 percent of those in the bottom fifth own their home free of mortgage compared with only 17 percent in the top group. Many are retired in the bottom quintile and are living off Social Security, pensions and accumulated savings.

Aside from tax payments and transfer receipts, why is spending inequality per person less than many popular measures of income equality? There are fewer people per family per household in the bottom quintile. 1.7 people. This increases to 2.5 people in the middle quintile and 2.5 people in the highest quintile. Furthermore, people in the highest group have more earnings. They have 2 earners per family. So in the lowest quintile there are many families without any earners not because they can't find jobs, but because many are retired.

A glance at per person spending over the past 20 years shows that all groups are spending more in real terms. Everyone has grown richer over the past 20 years. The lowest quintile is spending 14 percent more than 20 years ago and the top quintile is spending 16 percent more.

Now a quick look at unemployment shows how lack of education affects workers. Last month the unemployment rate for adults without a high school diploma was 6.6 percent. It was only 2 percent for those with a Bachelor's Degree.

Reforming education remains the most effective way of increasing incomes and there has just been a book published called *Tough Times, Tough Choices*. This is published by the new Commission on the Skills of the American Workforce, written by a prestigious bipartisan group chaired by Charles Knapp, President Emeritus of

the University of Georgia, and members included New York City Chancellor Joel Klein and also John Engler, who is President of the National Association of Manufacturers. The report tries to fix our education system. It proposes a set of core examinations. It proposes more school choice. It proposes more education both for the children and for adults.

So to sum up, in a global economy, education and innovation are the keys to high standards of living and job security. We can help people gain security in the workforce not by pricing them out of a job by increasing mandated benefits and minimum wages, but by improving opportunities and upward mobility through better education.

Thank for the opportunity for testifying today.
Chairman MILLER. Thank you. Ms. Johnson.

**STATEMENT OF KELLIE JOHNSON, PRESIDENT, ACE
CLEARWATER ENTERPRISES, INC.**

Ms. JOHNSON. Good morning, Chairman Miller, Ranking Member McKeon, and members of the committee.

My name is Kellie Johnson, and I am President of ACE Clearwater Enterprises located in Torrance, California. I would like to thank you for the opportunity to appear today on behalf of ACE Clearwater Enterprises, our employees, and to speak about how manufacturers are strengthening America's middle class by providing high paying jobs and benefits.

ACE Clearwater was founded by my grandfather more than 50 years ago. We are a third generation, privately owned family business. I am passionate about manufacturing. Manufacturing is the engine that drives our economy and has created the middle class. I also feel very strongly about education and workforce development. Our Nation's ability to maintain its global edge in technology and innovation hinges on its ability to educate and train people for the jobs of the 21st century.

ACE Clearwater is a small manufacturer. We employ 172 of the best men and women in our industry. But we are crying for more skilled workers.

I am proud to say that we are a preferred aerospace supplier. Most of our customers are the prime OEMs, Lockheed Martin, Northrop Grumman, Honeywell, Boeing and Textron. Demands they put on our supply base is great, and in order for us to stay competitive in this global economy we have had to continuously reinvent ourselves, make huge investments in our engineering capabilities and capital equipment through technology on our shop floor. The only thing that is limiting us in growth is that we cannot find enough people to fill the jobs that we currently have.

Last year we interviewed 191 people and of those 191 we hired 28. These are great paying jobs with great benefits, opportunities for career advancement, on-the-job training, tuition reimbursement, but we cannot find the people that have the skills that industry needs. Currently we have 12 open positions. These are our biggest challenges. This is affecting the future of my company and the lives of the 172 men and women that work in the company.

As I said, our customers put great pressure on us. In the past they would come to us and ask us to build to their specifications.

Today they come to us with a concept and ask us how would you design it. Design it for us, manufacture it for us. Once you have manufactured it, we expect a price reduction next year. In some cases, our customers expect 6 percent price reductions year over year and they expect us to get this through productivity gains. We say how can you do that. We do it with the men and women on the shop floor that are innovative and creative and skilled, that are problem solvers and thinkers who know how to make things and embrace the technology that is available today in modern manufacturing.

We know that 70 percent of the new jobs in the future are going to require more than a high school education. That is why I am reaching out with other manufacturers across our country to work with the community colleges to communicate with them the kind of skills that industry needs. Recently the OECD report placed the United States tenth for people ages 25 to 34 with a high school diploma. This is a road to failure.

We need to raise the awareness of our workforce crisis with business leaders, educators and policy makers and we need to identify solutions at the State, Federal, and local levels that will promote communities and drive a skilled workforce. We believe community colleges are key in providing active training and lifelong learning.

We also need to encourage young people to get into manufacturing. We need to reverse the trend of people that are not getting into the math and sciences. We need to develop our future engineers and scientists and technicians.

The National Association of Manufacturers has launched a national campaign called Dream It, Do It to try to attract more people into the workforce. Young people have a bad perception of manufacturing. It is dirty and boring and monotonous, dangerous, and that simply is not the case in today's modern manufacturing environment. We are constantly bringing second and third graders through our shops so they can see firsthand the kind of exciting careers that exist in a factory, high school students, career teachers, tech teachers. In fact, a couple of years ago when we were bringing a high school group of students through our machine shop, a supervisor was addressing them and talking about his typical day. A student raised their hand and said why would I want that job, you stand on your feet all day and do the same old thing. I would rather make web sites. And our supervisor responded, "I didn't go to college, but I have vocational training, I make \$72,000 a year and parts that I have designed and built are on the planet Mars."

Now maybe that kid only heard \$72,000 a year, but so what? We have to get these kids involved in manufacturing. They are our future. Manufacturing is what has created the middle class, and we cannot afford to lose it.

I would invite every member of this committee next time you are in southern California to come to ACE Clearwater so you can see what we are doing there. It is exciting, it is rewarding. It is challenging. You can really make a difference.

I appreciate the opportunity to speak today, and I welcome any questions.

[The statement of Ms. Johnson follows:]

Prepared Statement of Kellie Johnson, President, ACE Clearwater Enterprises

Good morning, Chairman Miller, Ranking Member McKeon and members of the committee. My name is Kellie Johnson and I am the President of ACE Clearwater Enterprises located in Torrance, CA. Thank you for the opportunity to appear today on behalf of ACE Clearwater Enterprises, its employees and to speak about how manufacturers are strengthening America's middle class by providing high paying jobs and benefits.

I am here to speak about an issue I feel very strongly about, education and workforce development. Our nation's need to maintain its global edge in technology and innovation hinges on our ability to educate and prepare people for the jobs of the 21st century. ACE Clearwater is a family owned and operated business incorporated in the State of California and has been building complex formed and welded assemblies for the aerospace and power generation industries for over 50 years. As a third generation leading our company I can say it is more difficult than ever to find the talent we require. We need to raise awareness of our workforce crisis with business leaders, educators and policy makers. We must identify solutions at the local, state and federal levels while promoting policies that strengthen communities and drive a skilled workforce. Our 172 employees are in a word, awesome, together we make some really incredible components, if it can fly, we have parts on it. ACE's customer base includes the U.S. Government and virtually all the prime OEM's, cutting edge companies like Honeywell, Lockheed Martin, General Electric, Boeing, Northrop Grumman and Textron, in addition to many international customers. I am proud to note that in 1999, Industry Week recognized ACE Clearwater as "One of America's Top 25 Small Manufacturers". Our current annual sales approach \$28 million, and our payroll is nearly \$120,000 per week.

As you know, the United States continues to be on the cutting edge of new technologies, innovative ideas and out-of-the-box thinking, we are a very creative country, with a dynamic and highly motivated workforce. But we have an URGENT problem, and it requires our immediate attention, put simply our workforce is aging and our supply of skilled workers is in decline. The manufacturing sector has experienced a nearly 40% growth in demand for highly skilled workers, while demand for low skilled workers continues to decline.

We employ a lot of people who like to make things, many have hobbies that include model ship building, custom guitar building , and even a couple of guys who build radio controlled jets * * * lots of folks who, like me, appreciate the shop floor. ACE is a mini city, lots of areas dependant on each other, and like any community it requires some highly skilled people to keep it growing.

Our customers used to give us a blueprint and say make this, now they give us (CAD) computer assisted drawings and ask us to tell them how we can make it better, lighter, faster and cheaper. These challenges require a highly skilled and motivated workforce, and to do this, America needs to recognize there is a skills gap, and it is growing. A recent OECD report on education says it all. The United States ranks # 1 in adults 45-64 with a H.S. diploma, we are in 5th place with adults 35—44, and a dismal 10th place with adults 25-34 with a basic H.S. diploma. This is a roadmap to disaster. The reality is 75% of new job growth requires some level of post-high school training.

Like any manufacturer, at ACE, our employees are our greatest asset. We maintain a competent workforce through selective recruiting, training, involvement and empowerment at all levels. Our people are integral to the R&D process. For many projects, our people are the key to innovation on the factory floor. Responsibility is also important. All our employees are empowered to stop the production process and ask questions if they feel something is wrong. Our core value is "We do the right thing."

According to the Employment Benefit Research Institute, 84% of manufacturers nationwide provide health care benefits to their employees, a level of coverage second only to government. Accordingly, to attract and retain the best talent, ACE provides health, dental, vision and life insurance for its employees. We currently cover 75 percent of employee insurance costs. We also provide a 401(k) plan, of which about 1/3 of the employees participate as well as 7 paid holidays. Our vacation package is very generous, with an average vacation time of 3 weeks. A typical employee at ACE has been with us over 10 years.

Our benefits package is also very competitive, and we have been able to maintain these benefits with minimal affect to employee costs. ACE's overall benefits package is equal to 24 percent of our total payroll.

My company, like many others, continues to find ways to provide generous benefits in a time when the costs of such benefits realize double-digit increases from year

to year. A June 2005 Survey of executives by Advanced Technology Services indicated that between 2000 and 2004, increases in benefits accounted for more than half of the increase in manufacturing compensation.

I could tell you many stories about how we work with employees during difficult times, but Kimberley is the most recent. She was having some problems with her pregnancy and needed multiple doctor visits each month during her final trimester. She did not want to lose hours by taking off too much time, so we adjusted her work schedule to fit her particular need, it was a win-win for everyone. We have also had several fathers ask us to do this for them as well. It is in every employers best interest to work together to help people when these situations arise. We want them back, and we want them excited to come to work!

Manufacturing careers are great jobs with good benefits. In 2005, manufacturing employees earned an average of \$66,000 a year in wages and benefits compared to employees in the remainder of the economy that earned about \$54,000—a 22 percent difference!

The manufacturing industry is what makes this country great, and we cannot afford to lose it. More than one in six private sector jobs in the U.S. depend on the manufacturing base, and manufacturing accounts for about 12 percent of GDP.

While I am proud to share with the members of this committee the success we have experienced, all is not well. In fact, ACE Clearwater currently has 12 open positions.

They include: manufacturing engineers, welders, and machine programmers and operators. Our biggest challenge is finding skilled personnel. We hire summer interns and recruit from several universities, technical & community colleges and local high schools to train the next generation of engineers and technicians. A shop mentoring program encourages senior operators to assist younger people in augmenting their skill levels.

Tony is an excellent example of how we are constantly encouraging people to learn new skills, and grow with the company. He started as a welding assistant, helping with cleaning the parts prior to weld and fitting them up. Eager to become a welder, he approached his supervisor with his dream. Practicing during his lunch break, we could see his drive and ambition. Through in-house training, and supplemental off site instruction paid for by ACE, he is now the lead welder, and helps to train others like him.

ACE Clearwater is doing its best to provide good quality jobs, but we must see a resurgence in this country of educational skills programs to stress that people can make a great living through the many opportunities that manufacturing has to offer.

We face a daunting challenge. A 2005 Skills Gap survey conducted by the National Association of Manufacturers revealed that more than 90 percent of respondents stated that they could not find enough skilled production employees, including front-line workers, such as machinists, operators, craft workers, distributors, and technicians, to fill their job openings. The same survey also indicated that more than 80 percent of respondents could not find qualified workers to fill their job openings.

The challenge for manufacturers is how to attract, retain, and motivate a high-performance workforce. The challenge for government is how to improve the quality of education in our primary, secondary, and post-secondary school systems. There must also be improvement in job training programs to address the continuous demands of training and re-training of workers. In addition, we need to reverse the decline in U.S. students who study science and engineering.

A manufacturing worker today must have math and science skills and the ability to problem-solve, think analytically, communicate via written and spoken word, and work in teams as well as autonomously. However, many job applicants have insufficient reading, writing, and communications skills, and they have inadequate basic employability skills, such as attendance, timeliness, work ethic, and problem-solving. Last year we interviewed 191 applicants and hired 28, had the proper skills been there I can state we would have hired a lot more.

Our growth is only limited by our ability to meet our customers ever challenging demands. And that means a skilled, motivated and excited workforce. Few of the skills needed to succeed in the workplace are taught in the schools, nor do students understand how what they are learning will translate into their future careers. There must be better alignment between education and training systems and the needs of employers and the business community. Increased communication and collaboration among manufacturers, government, educators, and parents would help to alleviate the skills gap shortage.

ACE Clearwater is doing its part to remain vibrant despite a competitive global economy and ever increasing government regulations, but its ability to do so in the

future is predicated on the availability of a highly skilled and adaptive workforce. The manufacturing industry is providing economic opportunity to America's workers, but as manufacturers suffer, so too does the nation's overall economic health.

Thank you for the opportunity to testify, and I am glad to answer any questions you may have.

Chairman MILLER. Thank you very much.
Dr. Weller.

**STATEMENT OF CHRISTIAN WELLER, SENIOR ECONOMIST,
CENTER FOR AMERICAN PROGRESS**

Mr. WELLER. Thank you very much for inviting me today. It is an honor to be here. In my testimony today I will address what I consider to be the source of middle class anxieties, the rise in economic insecurity.

In the fall of 2006, the joint report by the Center for American Progress and SCIU, titled Middle Class in Turmoil, found that within a few years after the end of the last business cycle in 2001, all gains made in the financial security by middle class families during the 1990s had disappeared. Despite an economic recovery that has lasted more than 5 years, middle class families are struggling to pay for home, health insurance, transportation, and their college education due to labor market recovery and higher prices for other important items.

To pay for these necessary expenditures, middle class families are borrowing record amounts of money leaving them unable to put away much extra cash for rainy days. Families are unable to save for an emergency. Job growth of this business cycle has been less than one-fourth of previous business cycles and real wage growth has been declining for most of this cycle.

The typical family's incomes did not rise between 2000-2004 even after increasing median family income in 2005. The typical families still had almost \$1,300 less than they did in 2000. At the same time, the cost of families' top five expenditures, medical care, housing, food, household operations, including energy, have risen more than twice as fast as the cost of the smallest five items. To maintain their day-to-day necessary consumption, families took on a record amount of debt equivalent to 131 percent of disposable income in the third quarter of 2006. The increase in debt to income after 2001 has been more than four times faster than the increase in debt to income during the 1990s.

In line with the rise of indebtedness, debt payments have also increased to the highest level on record. In the third quarter of 2006, families paid on average 14.5 percent of their disposable income in interest, up from 13 percent in the first quarter of 2001. That is 28 percent faster than the gasoline expenditure increase during that same time. The share of families capable of weathering this financial crunch has decreased. Less than a third of families must accumulate wealth equal to 3 months of income. The share of families with 3 months of income and financial wealth declined from 39 percent in 2001 to 33 percent in 2004. This erased all gains in financial security made during the 1990s and left families more vulnerable than they were in 1989.

We wanted a control in our study for labor force changes, so we created what we called a typical family, a dual income earner cou-

ple between the ages of 35 and 54 with earnings in the middle of the 60 percent of the income distribution. The share of these incomes declined from 29 percent in 2001 to 18 percent in 2004, which is well below the 21 percent recorded in 1989, which was already very low.

Declining wealth and fewer savings pose significant risks to middle class families facing unemployment. The weakest job growth rate since the Great Depression means that people who lost their job had a much harder time finding jobs than before. Long-term unemployment in this business cycle averaged 17.5 weeks, the highest average for any business cycle since World War II. As a result, a spell of unemployment can be quite costly for families. Less than half of all families could weather a bout of unemployment in 2004, down from 55 percent in 2001.

Within 3 years, all gains in financial security will meet according to this measure during the 1990s advantage. Medical emergency is an even bigger risk for the financial security for middle class families. Ever rising health care costs consistently outpace overall inflation leaving more and more employers to shift more and more of those costs to their employees through higher premiums, co-pays and deductibles or to drop health care coverage altogether. As a result, the cost of a typical medical emergency jumped to an estimated \$3,700 in 2004 from \$2,800 in 2001. The share of families who could sustain a medical emergency consequently went from 36 percent in 2004 compared to 44 percent in 2001. Again, the drop is sharper for typical middle class families and middle income dual earners.

As new data becomes available, we have updated those numbers for 2005 and the trends continue despite the trends in the labor market.

This research establishes two crucial policy goals from my perspective. First, workers need to see stronger income gains in the economic expansion that requires a high minimum wage, a level playing field for workers who want to bargain collectively in improvements to their income tax credits, among other steps.

Second, I think public policy should help families build wealth by strengthening defined benefit plans, improving defined contribution plans, raise health insurance coverage, among other important steps.

Thank you very much, and I will be happy to answer any questions.

Chairman MILLER. Thank you very much and thanks to each of you for your presentation. I think there is enough here to stimulate some discussion. So thank you so much.

And your entire statements will be placed in the record. I know some of your written presentations were longer than your oral presentations and we appreciate that.

Let me see if I can get to what appears to me a little bit of a different take on this discussion, and this is for the entire panel. Aside from tax payments and transfer receipts, why is spending inequality per person less than any popular measures in equality and, prior to that, if I read this correctly and that is a big if, but if I read this correctly, the suggestion is that the inequality that we see discussed very often in the press and in journals and papers

and certainly in the halls of Congress and the so-called income disparity issues you suggest aren't as they appear because the levels of spending among the various quintiles within the population are much less than that discussion of disparity and on inequality would suggest.

Ms. FURCHTGOTT-ROTH. Right. That is correct, sir.

Chairman MILLER. Okay. What I don't understand and I would like others to comment is you suggest that the—for food and housing that, you know, that the top 20 percent earners spent \$3,441 in food per person and then the bottom spend \$1,792 per person. I don't know that that tells me what they are eating, and what have you, and I don't know what percentage of that, of their income is dedicated to food.

And in the other categories on questions of health care, again, I don't know the health status of the top quintile and the lower quintile. Are you counting insurance payments in that? Is that included, insurance, or is that out of pocket expenses?

And then the other one is the idea that there is the substantial amount of consumption going—among all of these segments of the economy, the question is are people—what is the difference in terms of reliance on second earners in the family to generate that total household income? And secondly, what is—how much of that consumption is backed up by debt as opposed to income among those?

Ms. FURCHTGOTT-ROTH. Well, these are really excellent questions, and it is a very difficult subject to follow but the basic point is that spending for the bottom quintiles is higher than their incomes because they receive transfer payments that are not listed in income. So for example, we have had people say today that CEO compensation is unfair and perhaps what Madonna makes after a concert is unfair. But that is not always a measure of their well-being because the CEO gets taxed.

Chairman MILLER. But on that point, if I might, the case of somebody who gets food stamps, the decision has been made that they have insufficient income to provide an adequate diet for that family.

Ms. FURCHTGOTT-ROTH. That is right. So what we do is we take—we tax the top half, and the top 50 percent, according to the Congressional Budget Office, pays 97 percent of the taxes. And there are transfers that go to the bottom in terms of food stamps, housing subsidies, and you observe in the bottom quintiles people spend more than their observed income. People in the top quintile spend less than their observed income. They can't spend all of their income because they pay taxes.

So when you look at these things and you also divide it up on a per person, per family basis, because there are more people per family in the top quintile than the bottom quintile. So you wouldn't expect—

Chairman MILLER. With all due respect, when the people in the bottom quintile get all done spending their income, they have an inadequate diet, health coverage and pension. When the people in the top get done spending their after-tax income, they have also sheltered a huge amount of income in the retirement plans. We have—we don't know the status of their health care plans in terms

of corporate benefits. And they have enough—they have enough discretionary income left over that they really in many cases don't spend it even when you lower the tax rate. This is not spending in necessity.

It seems you are comparing a class that is spending out of necessity for the necessities, food, health care, and what have you, and people who are then spending after they can cover all of the necessities and then add on to that. I don't quite get what the comparison is.

If I quickly might indulge, ask leave of the committee if we might have a comment from one or two others on this.

Mr. WELLER. I think the issue of spending inequality is somewhat an outcome based measure. If we want to look at inequality of something that tells us where policy should be going, I think mingling in issues such as transfer payments skews the picture somewhat. I think overall, at least what our research shows, is that families in the middle income, not so much at the bottom, are struggling to pay for typical middle class items, housing, health insurance, and that explains the sharp run-up in debt level. So you have got to remember debt levels relative to income rose four times faster after 2001 than before that. And that cannot be explained with behavioral changes or can only be explained with the overall economic fundamentals, weak income growth, weak wage growth, weak employment growth, the rapidly rising prices. And I would say that those measures are a better measure of capturing what we want to know where policy should be going in the future.

Ms. APPELBAUM. I don't think it is news to anybody that rich people spend less than what they earn and poor people spend more than what they earn.

And to Dr. Weller's point, the middle class has been doing this by using their house as an ATM machine, as we know. The amount of equity taken out of their houses to support their consumption over the last 5 or 6 years has been huge. Now that housing prices have stopped rising, this is no longer available to them. This is a huge problem for two groups of workers in particular: Those who are approaching retirement and who are counting on the equity in their houses to make up for their lack of pensions and for their lack of their savings, and this is a problem of the middle class, not of the wealthy, who in fact have been able to save for their own retirements.

And the second group are people who were encouraged, shall we say, to move into subprime mortgages to buy houses at the peak of the market at rates that are not going to be sustained and will not be able, as we see from the rising foreclosure rates, will not be able to make the higher mortgage payments they are now being asked to make and who are losing everything. They are losing not only their house but all of the savings they put into it.

Chairman MILLER. Thank you.

Mr. McKeon.

Mr. MCKEON. Thank you, Mr. Chairman. As you said, there is room for lots of discussion here. I am—the opportunity overwhelms me.

I have listened to each of you, and you each have a different story to tell, and you are all experts in what you are talking about.

I spent a lot of time visiting businesses, manufacturers, lots of different businesses and I see—I see everywhere there is a demand for people to fill the jobs.

Ms. Miller, you have been caught in a rough industry for a few years that have had tremendous problems and especially since 9/11 where it is amazing that all of them are still around even though most of them are in bankruptcy, or some of the large ones are.

But I talk to people. You mentioned nurses. They are paying—around the country they are paying hiring bonuses to try to hire nurses from one company to another company. Great demand for nurses, great demand for teachers. I talked to a school that provides teaching for beauticians and barbers. They can't begin to fill the ranks. Truck drivers. They can provide 40,000 truck driving jobs a year. We can't get enough people going into teaching. Everywhere. I see 4½ percent unemployment. We used to consider 6 percent full employment. And yet I hear these stories about how bad things are.

I am wondering where personal responsibility comes into any of this. Should the government be responsible for people having hard times? When I hear about hard times, I try to think—I look at young people compared to when I was young; in fact, I have lived too long. I grew up and I know that—how much a loaf of bread was and how much a pound of meat, wienies. I used to work in a market. A gallon of gas when I was a kid, 25 cents. But I also remember the Carter years in the 1970s when we had gas lines, and we said that the next year gas prices were going to be 3, 4, \$5 a gallon.

And yet always we seem to make it through, and we end up consuming a whole lot more. My parents, they struggled just to get food on the table, and then I look now, the struggle is a bigger house, more cars, bigger cars. You mentioned boats. I understand you are not looking to buy a boat but, man, we are selling lots of boats. All of these things.

After listening and reviewing some of this testimony, I can't help but notice a common thread through some of it. There is an apparent lack of confidence in the American people to make decisions for themselves, manage their finances, care for their families, plan for their future.

I must say that this is jarring because it underscores a sharp difference in philosophy here in Washington. Some of us trust American workers and their families; some of us don't. Over the course of the next few years, I think we will see the stark difference come into focus time and again, particularly on this committee.

Ms. Johnson, of all the panelists you are the one with the most experience in supervising and working with rank-and-file workers that we are here to discuss today. What do you make of this theme that I have noticed throughout some of the testimony today, and do you find that those you work with back in southern California are incapable of assuming risk, are ill-prepared for challenges in the workplace, and ill-suited to deal with the new realities of the 21st century, or do you find that yourself, like me, a little more confident in the workforce?

Ms. JOHNSON. I have all the confidence in the world with our workforce. I know it is an overused cliche when we say people are

our greatest asset, but when you look at a small company, the labor percentage in terms of cost to sales is not that large when you put in raw materials and outside processing and the other costs that go into our product.

We spend numerous hours training our employees. They have embraced being cross-trained because they recognize that that brings more value to them and more security in their job. Our workforce is crying out for training. They want to advance their careers, they want to learn how to use new technologies. Of course, they want to buy new cars and homes and send their kids to college. But my opinion, the workforce that we have and the people that I deal with on a day-to-day basis, I have all the confidence in the world that they are responsible and capable of managing their own lives.

Mr. McKEON. I have been very concerned about the cost of education. The last 20 years it is going up four times faster than the rate of inflation. Is that the government's responsibility? Why is that happening? Most of that money is going to college professors, right? In some cases, football coaches. Where can we get a handle on that? How do we rein in the costs of education, because it is more and more important.

We used to lose a lot of jobs going to other countries because of low wages. We are going to start losing them because we don't have an adequate trained workforce, and they are turning out enough people, and they are turning away people at schools, and a lot of people can't afford to go to school. How do we get a handle on those costs?

Ms. FURCHTGOTT-ROTH. Well, one thing we can do is make more use of community colleges. Forty-five percent of freshmen in the United States are in community colleges. They have vocational training, can stay for a 2-year program, then transfer to a State university, or you can just go there, take a few classes.

We spend \$15 billion, the Federal Government, on job training, and a lot of these funds could be used better by channeling them to workers and allowing them to take courses in community colleges. Community colleges train most of the nurses. They are having to turn away nursing candidates, by the way, because their programs are full.

So expanding community colleges and channeling more funds into those is one way out of the education cost squeeze.

Ms. APPELBAUM. If I might just comment on that as well. The issue that we can find when we look at higher education and compare it as a proportion of income to what other things cost, is, as Ms. Johnson has pointed out, manufacturing is the answer to productivity growth, so we have had enormous growth. It is not clear that you can get those kinds of productivity growth in higher ed or in education in general. It is the reason that as a country we have agreed to subsidize education. If we left it to private resources, just a small fraction of people would, in fact, be able to afford a college education.

I think—I agree with the idea that we have to think about how to use resources more efficiently. At the Center for Women and Work we have done a lot of work on distance learning and on the means to use technology to reach people who are working full time

at low wages and can't go to school. But the bigger problem, it seems to me, is that we have something like 52 percent—we have 52 percent of high school grads going on to postsecondary, including community colleges, but less than 30 percent graduating with 4-year degrees.

Chairman MILLER. We have got to stop this discussion for a second.

Mr. Kildee.

Mr. KILDEE. We have votes coming up. I don't know the answer to this question, but I am not an attorney, so I will ask it anyway. How does the status of the middle class—and I will address this to Mr. Hacker first—how does the status of the middle class in Western Europe or other areas compare to the status of the middle class here in the United States?

Mr. HACKER. It is a very good question, and, in fact, just the other day I was giving a lecture to my students comparing some of the recent statistics, so hopefully they are at my disposal now.

The first thing to say is that American—middle-class Americans, the median American is relatively rich in international perspective because we have a much richer economy than most other countries. However, if you go even down to the lower levels of the middle class, say, people at the 40th income percentile, then you actually have many European nations have income levels that are higher.

The most striking difference between the U.S. and Europe really has to do with both the security or stability of income. It is much more unstable in the United States. People have much—have to rely much more on their own initiative or on their employers for health insurance, pensions and so on. And also it is much more unequal as we all know from the comparative statistics.

Interestingly, most Western European nations have not seen the same kind of increase in income and equality that we have seen in the United States. It has gone up in some of them, but it has certainly not been as dramatic. I think what we can say is that the United States has had an enviable economic performance compared with other countries, including Europe, and that there are strains that we see in Europe that we don't see in the United States that are worth taking into account. But at the same time the middle-class citizens of European countries have greater economic security, clearly, and especially if you are—there is less inequality in those countries, and especially as you move slightly below the exact middle of the income distribution, their standard of living is actually in many cases higher than in the U.S. for comparable populations.

Mr. KILDEE. Am I right that the fragility of the middle class status in this country is something of grave concern? I mean, you have a middle-class person, and they have an economic crisis come upon themselves, in 2 months they are having a difficult time making their mortgage payments; are they not? So there is a certain fragility among our middle-class people.

Mr. HACKER. I think that is the main concern we have heard from many of the panelists today and the main concern that I have expressed. It is really not denying that Americans are richer than they used to be, that is clearly the case, but those riches have been accompanied by increasing economic risks, and it is thinking about ways in which we can ensure that people who have climbed up the

economic ladder, who have made it into the middle class, can stay there when dramatic events occur in their life.

That is the kind of challenge I think we have to worry about with health care, pensions plans, with how to deal with the increasing amount of structural unemployment; that is, people displaced from a job for which they develop specific skills and then have to gain new skills or spend periods of time outside the labor market before they can reenter.

So we really need to worry about not just the standing at any point in time of the middle class, but how secure they are against precipitous drops in that standing.

Chairman MILLER. We have four votes on the floor. I am going to try to get Mr. Walberg in for a question at this point if you would like to. And then we will break and come back, get back here at 12:15, and on our side will be Mr. Andrews, Mr. Tierney and Mr. Loebsack, Mr. Courtney, Mr. Davis, Mr. Ehlers, Mr. Castle, who was here and gone.

Let me just ask you, does this raise a logistical problem with any of the panelists? Can you stay with us if we take a break until 12:15? I don't know if people have flights or what.

Thank you very much. We will be back here and try to start right at 12:15 if we get through these votes. Thank you.

[Recess.]

Chairman MILLER. Thank you for being here and returning promptly. We will begin with Mr. Ehlers.

Mr. EHLERS. Thank you, Mr. Chairman. I am sorry I missed much of the hearing, but I was in a markup just down the hall. Fortunately, I was able to hear the testimony of several individuals, particularly Ms. Johnson, and I just want to comment that what I heard from her is right on. It is exactly what we are experiencing in Michigan with our manufacturing, and I suspect it is a national phenomenon.

In the old days when I walked in a factory and took a tour, there was a whole line of lathes, machinists working on the lathes, turning the screws by hand, measuring with micrometers. Today when I walk in a factory in my district, there is a \$700,000 milling machine, computer-operated, and a technician operating it who earns 70- to \$80,000 a year.

Times have changed. Schools have not changed, and in particular students are not getting the work. I think it is very important for us on this committee to recognize that the educational institutions have to change to accommodate the needs of the world out there that they face now and that these students are going to face, and I have been all over the U.S. trying to get the message across. We have to change our educational system, particularly math/science education. We have to prepare the students of today for the jobs of tomorrow, and we have just not been doing it.

There are some schools that are doing a fantastic job, many that are not. There are many aspects of the problem, one of which is teachers who are good teachers who want to teach math and science well, but have never learned it, never been taught properly, and have not learned science and math itself, and not learned how to teach it properly.

So I just wanted to go on the record thanking Ms. Johnson for her comments and the rest of you as well, their supporting comments.

That is the direction we have to go. I appreciate what No Child Left Behind has done. We are now beginning the phase of testing in science, but we are not going to count it toward yearly progress for some years. I think we should change that and start counting it immediately. This is not something that can wait, this is something that we have to do fairly soon.

I would just like to ask Ms. Johnson if she would like to make any further comments along that line?

Ms. JOHNSON. In regards to the qualifications of teachers that are in the field of teaching math and science, I would agree that they need to have, in many cases, more real-world experience. Math and science, when the children are learning it in the classrooms, they need to have the ability—I am not sure if I am using the right word—contextual learning so they can apply what they learned in the classroom to real-world experience. And I think that there needs to be better collaboration between industry and education so that we can get people that are actually out on the shop floor and utilizing the technology that is available and sharing that with the teachers so that they have a better understanding of the kind of skills that are necessary and how they can better teach their children the math and the science and apply it to a real skill.

I am very much supportive of the No Child Left Behind, but I feel that no child should leave without a skill, and that there should be a clear path for them in terms of whatever their life situation is, that they can pursue what fits them.

In regards to getting industry more involved, I believe that there should be better partnership is the only way that we are going to be able to proceed and take the next step.

Mr. EHLERS. Thank you very much.

Just continuing on that thought, we have developed some programs, Mr. Chairman, which I think work very well, the partnership programs in the Department of Education, also the National Science Foundation, but they have not been adequately funded, and the word has gotten out. I think the appropriate role of the Federal Government, and without impinging on local school boards and State boards of education, is simply to provide the professional development for teachers so that they get the education they need to properly teach these courses, as I call it, for the jobs of the future, and that they feel comfortable doing it and can do a good job.

I have worked with the schools for many years. I never talk about or blame the teachers because they simply haven't had the opportunity to learn the appropriate subject matter and methodology for these courses. But when they do, they are very excited about it, and they are eager to do the job properly.

With that, Mr. Chairman, I yield back.

Chairman MILLER. Thank you.

Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman. I thank all the witnesses.

Dr. Furchtgott-Roth, in your discussion of the superb economy that, in your view, we are experiencing, one of the points on which

you rely—I read an article you wrote on December 11th, 2006, called Richer Than You Think, and in the article you say, and I quote, we can see indications of prosperity all around us. The boom in self-storage facilities catering to middle-class America has come about because our possessions have outgrown the capacity of our homes.

Are there data to support that claim, that the boom in self-storage facilities is people that have too much furniture for the house they are living in because of prosperity?

Ms. FURCHTGOTT-ROTH. There has suddenly been more and more Americans using these self-storage facilities, and they are using them to store something—obviously not using them to store nothing.

Mr. ANDREWS. Absolutely. You would concede, wouldn't you, that one of the reasons that people may be doing this is they used to live in a larger home, and they lost their job, and now they moved to a smaller home and have to store their furniture somewhere? Is that possible? Do you have any data on that?

Ms. FURCHTGOTT-ROTH. The rate of home ownership is increasing. The average size—

Mr. ANDREWS. Do you have any data on your claim that the reason self-storage facilities are booming is because people are so prosperous?

Ms. ROSEMARY MILLER. Could I say something?

Mr. ANDREWS. I am going to come to you in a minute, but I want the doctor to answer the question.

Ms. FURCHTGOTT-ROTH. I think it is a reasonable assumption that when people have a self-storage area, then they are putting things in it, and the size of our homes is getting bigger.

Mr. ANDREWS. Do you think one of the reasons might be that people can't afford the rent where they used to live, and maybe they now moved in with family members because they can't afford an apartment? Is that possible?

Ms. FURCHTGOTT-ROTH. I am sure there are people for whom that is true, but that is not a systematic problem in the American economy today.

Mr. ANDREWS. I don't have much time. You are the one who made the claim that the reason for this boom in self-storage facilities is all this prosperity. Are their data for that claim or not?

Ms. FURCHTGOTT-ROTH. There are data showing increasing prosperity, increasing purchases. Retail sales were at a high last month.

Mr. ANDREWS. Are there data that show that the reason that more self-storage facilities have opened up is because prosperous people need room to store their furniture, yes or no?

Ms. FURCHTGOTT-ROTH. It is a logical argument to make under the circumstances looking at current economic conditions, and it is true systematically about the American economy.

Mr. ANDREWS. Does that mean no or yes?

Ms. FURCHTGOTT-ROTH. I am not familiar with all the data regarding it, and so I can't answer the question.

Mr. ANDREWS. Even though you made the claim.

If I may, Ms. Miller, the Ranking Member a minute ago made a reference, and I am sure it was in good faith because that is the

kind of person he is, that personal responsibility is one of the keys to people achieving more economic success. I wonder if you could describe for us a typical day for you with your 14-year-old, your 12-year-old living in Reno and commuting to San Francisco. Can you tell us what a typical day is like for you and how much personal responsibility you engage in?

Ms. ROSEMARY MILLER. It is difficult for me to do anything but tell you my own experience and the experience of the people that I work with and the experience of people that I speak with. I am uncomfortable with the numbers and the confidence that so many place in the numbers because those numbers don't translate to what is happening in my life.

The issue of personal responsibility is a very important one for me. I put myself through college. I worked six jobs from freshman year through the years until I graduated. I grew up in a family where none of us, and I come from a big family, were able to pay for college. We had to pay for it ourselves.

I went to college, I got my degrees, and I made a specific decision based on my personal priorities, which was my family, to join a workforce or a profession that didn't use my degrees, but it used my energy, it used my intelligence, it used my people skills. And I worked for a company for many years that was run by employers who showed personal responsibility.

Personal responsibility is not just the purview of individual workers, it is the purview of the people that run companies; it is the purview of the people that represent those companies in legal situations and that sort of thing. I look back at the 18 years that I have spent at this company, and I can't think of any moment where I was irresponsible.

At this moment in my life, I happen to have no consumer debt, which is a personal, personal goal for me, and it is not—it is not the norm though. I know that there are people in my—peers that have consumer debt and that sort of thing.

Chairman MILLER. It is very difficult for me to interrupt you, but I am going to have to because—

Mr. ANDREWS. I thank the witnesses. My time has expired.

Chairman MILLER. I am sorry.

Ms. ROSEMARY MILLER. No worries. Thank you.

Mr. KLINE. Thank you, Mr. Chairman. We have a vote on the way.

Thank all the witnesses for appearing today, and as always there is never enough time.

Just a couple of things. Ms. Miller, I found your story very compelling, and since I, like most Members here, fly thousands and thousands of miles and many, many hours on airlines, on Northwest Airlines, who I understand to be your employer, but whoever the large carrier is, and certainly we couldn't do that without the professionalism and attention of the flight attendants.

However, just looking at your testimony, you volunteer that we could replace "I" with "me," and you talk about such careers as pilots and mechanics and nurses, like my wife and niece, and firefighters. What are you basing that expertise on? I understand that you are a flight attendant. Are you a nurse and a firefighter and so forth?

Ms. ROSEMARY MILLER. No, I think what I was trying to say is that the person sitting here giving testimony today could be one of a number of American workers.

Mr. KLINE. Or could not be. Some of those professions could be doing very well, presumably. Thank you. I just wanted to be sure.

You also mention that you are in a squeeze, and you are trying to pay for a home and so forth, and yet—and I am sure that is true, I am glad you are debt free, but there is no question that home ownership is at the highest in this country than it has ever been, including for minorities.

Ms. Johnson, also a very compelling story. I have a small manufacturing company in my district run by a woman also, and she is having so much difficulty finding employees that they have gone to the practice of in the third—what would be the third shift starting up the machines, loading them up with steel and starting them up, and then turning off the lights and going home. I said, don't you even have a night watchman? No. They just lock the doors and go.

And the point is that there is productivity sometimes without employees, of course, but mostly her biggest issue—and I find it increasingly as I travel around the district—the biggest problem that employers are having are finding qualified workers. Sounded to me like that was your story.

Three years ago when I traveled around, the biggest issue was the cost of health care. And I am not meaning to imply that is not still an issue, but clearly there is difficulty in finding employees. How long has this been a concern of yours?

Ms. JOHNSON. I have recognized for more than 6 years now that we are going to be experiencing a work skill shortage, and it is something on my radar for a while, particularly because where I grew up in southern California surrounded by the large prime aerospace companies. Most of my friends' parents either worked for one of those companies or owned their own machine shops. And I noticed that so many people that were in my generation were not getting—following their parents' footsteps, whether it is because their parents felt there was something better for them, or, like me, they might have been the first child in the family to go to college, and so they are pursuing other things.

So it has been something that I have been addressing and realize is going to become a crisis. It has been in the last couple of years, for example, we had a minimum average of 10 positions that remain unfilled.

Mr. KLINE. Let me interrupt for a minute because I am going to run out of time, and we do have to go vote. I think that Ms. Furchtgott-Roth mentioned that one of the things we can do to ease the shortage of employees is have more people go to community colleges. And certainly we have, I would claim, some of the finest in the country in my district in community colleges. Would that apply in your position; graduates of technical training or community colleges, would that help the situation for you?

Ms. JOHNSON. Definitely, yes.

Mr. KLINE. Thank you, Mr. Chairman. I yield back.

Chairman MILLER. Mr. Tierney.

Mr. TIERNEY. Thank all the witnesses. I think their testimony has been very helpful today in framing this issue and the cir-

cumstance. We always listen to the data. It is great to hear the academics say it, and we want to know how to interpret it, but I think, Ms. Miller, your real-life situation determines it pretty well.

I don't think you are alone in that. I know preschool teachers at \$21,000 a year, people working for General Electric who make engines who had their jobs off-shored. I know college professors who are now adjunct professors instead of tenured professors who are making far less with no benefits. We can go on and on.

I don't think your circumstance ought to be diminished one single bit. I think you reflect a great number of people, not all of them, and I want to thank you for the bravery of coming here and telling this story and how it has helped us identify the situation.

Similarly, Ms. Johnson, I want to thank you. I was a small businessman for over 20 years, president of the Chamber of Commerce. I think you reflect a whole pile of people out there who understand that part of the solution is education. We have had a problem with the White House on a serial basis cutting vocational and technical education, cutting job training programs, and I am hoping there is some reflection here that we can work in a bipartisan way to improve that situation. We cannot keep chopping millions of dollars off of job-training programs and a President saying that vocational education isn't a worthy experience, where we know from our experience the opposite is true.

Another thing you haven't experienced, I have aerospace companies in my district that have been told by either the government, which is their customer, to make it cheaper even if it means going offshore to Mexico or overseas to Sweden, in the case of Volvo for engines, or, in another circumstance, a company that was owned by a Canadian company told them basically go north or south, but get cheaper on us.

So I just want to ask Dr. Appelbaum, tell us a little bit about the impact of trade and the trade deficit on jobs and people that might, in fact, be in this middle-class squeeze that Ms. Miller was talking about.

Ms. APPELBAUM. Thank you for that question. I agree with Ms. Johnson about the fact that manufacturing is the engine of productivity growth and of innovation, and I am very concerned about the fact that we have treated manufacturing with such disdain. It is not only that we are not training young people to go into skilled manufacturing jobs, it is that we are not investing in this country in high-value-added manufacturing.

And it is not just a problem in terms of middle-class incomes, I think it is a problem that is going to come back and bite us as a country. We know that one of the things that is going to have to happen is that the dollar is going to have to fall against other currencies, or, to put it another way, China currency is going to have to rise against ours. We had a fall of the dollar against European currencies, and we have seen just in the last month that that has definitely improved our ability to export to countries like Europe.

But what we really have to see—because our trade deficit is unsustainable. We have the IMF telling us that we are a threat to economic stability in the world. What really has to happen is two things. One is our currency has to fall relative to the currencies of

low-wage countries, and the second thing is we have got to think creatively about enhancing our domestic manufacturing capacity.

A better exchange value will enable us to export, but for us to actually be able to carry out those exports, we have got to have the manufacturing capacity here. And your point about off-shoring is very well taken. As recently as a decade ago, we produced—90 percent of the manufactured goods we consume in this country were produced domestically, and now we are down in 10 years to just 75 percent and falling.

So you raise a very good point there.

Mr. TIERNEY. It is big in my district.

Chairman MILLER. We have a minute left on the vote.

Mr. TIERNEY. Dr. Hacker, let me just ask you a question before you leave. I thought your statement that corporations get a liability shield, protection from liability, in a number of different ways as well as numerous incentives and tax breaks and whatever, why shouldn't middle class and others get some, as you, I think, phrase in other writings, structures of security that we used to have? If we are not going to get them through the employer, if they are going to cut back on defined benefit pensions, cut back on contributing to both current employee health insurance and retiree health insurance, can you give us some direction of what would be an appropriate Federal Government role that wouldn't be Mr. McCain and others perhaps be seen as a lack of self-discipline? But what might people use to help them in those situations?

Mr. HACKER. Thank you very much for the question. You are absolutely right that I think that middle-class Americans, just like entrepreneurs, need to have some basic protections against economic risks if they are going to have the confidence to invest in their futures, to make the choices and the investments, the ones that we talk about when we talk about personal responsibility that can advance their family and advance our economy.

I don't think this is just an analogy. I mean, if you look throughout American history, the periods of middle-class prosperity and strength are precisely periods where we invested in the middle class: The GI bill for education and home ownership; through Social Security and Medicare to ensure that people had security in old age and during their working life, that they didn't have to fear that they wouldn't be secure in old age.

So I think we need to draw on these positive past examples, but update them to our new 21st century economy. I think this is actually a place where we could have a really useful bipartisan discussion. Both Republicans and Democrats premised much of their action in the past on the idea that employers would continue to carry out these responsibilities, would continue to take on these burdens. We subsidize these benefits heavily through the Tax Code. We often tried to regulate them to make them work better, and we have seen that even more recently with the Pension Protection Act. The one inevitable reality about that is that we can't make corporations spend money on these benefits and offer them if they do not want to, right? We could certainly mandate that they do it, but that would only hurt our competitiveness and hurt corporations even more.

So we need to recognize that some of these sources of security that are so important to middle-class Americans have to move outside that direct employment relationship. I think there are multiple ideas out there. We need to have portable health benefits, for example, whether that means we expand programs for low-income workers, or, as I prefer, that we create a new option for middle-class Americans to buy, secure public or private insurance; whether it means that we make sure that 401K retirement plans are available to all workers even if their employers don't offer them and offer new subsidies for those plans that are particularly generous to middle-class workers and lower-income workers who are most at risk of not achieving their retirement savings goals; whether it means we try to work around the margins at least of our unemployment insurance system to ensure that more than just a third of workers who are unemployed are receiving some kind of unemployment benefits; and think about, for example, having some kind of wage insurance or protection against big drops in one's earnings when we lose a job in, say, a high-wage sector and have to move into a low-wage sector.

These are not ideas that are without precedent, they are not ideas that would necessarily divide us across ideological lines or partisan lines if we have a realistic discussion about how we would do it, how we might pay for it, and how this would be a new partnership between the public and private sector.

Ultimately we are talking about a new social contract for the American workforce.

Mr. TIERNEY. Thank you.

Ms. WOOLSEY [presiding]. Thank you for being so patient with us and staying. Chairman Miller is going to come back, Mr. Loebsack is coming back, and I have a series of questions, and then you will probably be free.

I do have an observation. I can do this now because there is nobody that is butting up against my time until somebody else gets here. I am sorry I was late, but I was at a Foreign Affairs hearing also.

I was watching the people behind you, the folks, and the room was jammed when I first got here to hear your testimony, probably most of whom were middle-class folks, and they had the saddest looks on their faces, I can tell you. They know what you are saying is true. They want a solution, and they can watch themselves and know about their kids. I just looked at them. I mean, it was just really sadness on their faces. Your giving us straightforward testimony is very much appreciated, and I thank you.

Now, Dr. Appelbaum, forgive me, I didn't yet read all of your testimony, but I have heard your responses to people, so I am asking you a question related to one of your responses, and you were talking about and reporting that productivity in the United States actually is growing, and that is something for us to celebrate.

So my question is who is paying attention to who benefits from this growth, and how much would it help the middle class, the working class, if the benefit actually was shared at least equally with them?

Ms. APPELBAUM. Yes, that is a very good point. We have had 10 years now of healthy, remarkably strong productivity growth, al-

though I did caution that in the past year it has slowed tremendously, so that is a storm cloud that we are going to have to keep an eye on.

For the first 5 years, in fact, middle-class income rose along with the productivity growth. We had a brief period of shared prosperity, a slight narrowing of wage inequality, and I think there was a sense of optimism in the country. Things did look like they were getting better; people could see their incomes rising. This has disappeared.

We continue to have the strong productivity growth, but we do not have the same kind of income growth, and I think that this has created, has contributed a lot to the economic insecurity. You can't see yourself getting better off.

As of 2005, the last year for which we have data, middle-class family incomes had not yet recovered 5 years after the end of the recession to where they had been just prior to the recession. We may have made it this year, but that is 6 years to get back to where you were.

I would like to add one thing to the social contract idea and to some of these ideas, and I know this is an issue close to your own heart. Most families today have every available adult in the workforce. They are either single parents, or, if you have married couples, they are dual-earner families. They rely on the income of every adult in order to make ends meet.

I think another important aspect of economic insecurity we haven't addressed here today is what happens when you have a family member who becomes ill; what happens when you have a young wife who becomes pregnant; what happens to a couple that adopts a child? Suddenly you are in a situation where you are caught between a rock and a hard place. You want to be a responsible employee, you need to put a paycheck on the table, and you have a sick child that you need to care for. And just as we introduced unemployment insurance when he left the family farm and went to work so there would be some partial wage replacement if he lost a job through no fault of his own, we have got to think about how to have partial wage replacement for people who are facing serious family crises. And I just—I think a big part of the economic insecurity is the knowledge that one illness—you are just one illness away from not being able to pay your bills, going into debt, maybe even losing your house.

Ms. WOOLSEY. Right. It may not be your own illness. You are a perfect straightwoman for me today because then you allow me to say as the Chair of the Workforce Protection Subcommittee on this major Education and Labor Committee one of my bills is the Balancing Act, which actually includes paid family leave and many other ways to help working parents bridge that gap between work and family.

So I have a question now for Dr. Weller. My question for you has to do with organized labor and labor unions, and what do you think is happening with organized labor, and what difference do you think that makes to the average working person?

Mr. WELLER. Well, the data we presented today and the stories we have heard here are the struggles of the middle class, and I think the most telling numbers are the ones that Dr. Appelbaum

just presented that compensation has not kept pace with productivity growth. Clearly we need to institute policies to help that, to bring that together. The minimum wage is a good first step. It helps at the bottom 10, 12 percent of the labor market, but it is not a middle-class policy.

The only policy that we really know that helps to strengthen the link between productivity growth and compensation growth is unionization. Unions have declined. There are less than 8 percent in the private sector in terms of coverage. In the public sector they are larger, although there are limits to what they can do, and clearly the labor law is stacked against unions. The elections for unions are often cumbersome. Penalties on employers are minuscule; it often takes years until those penalties are imposed, and then often they just require back pay.

I think it is an important first step to really level the playing field. I think the Employee Free Choice Act which has been promoted a number of years now is an important first step to level the playing field for workers who want to bargain collectively. It is still a democratically guaranteed choice to join a union, not join a union, but we really need to level the playing field because unionization is the most powerful tool to strengthen the link between economic growth, productivity growth and wages.

Look back at the 1960s. We did have very strong economic growth, strong productivity growth, strong profit growth, but we also let many families share in the gains of the fruits of their labor, and the primary tool here really was the union movement, the labor movement and strong coverage in the private sector.

Ms. WOOLSEY. Thank you.

We have Mr. Bishop back. So, Mr. Bishop, your turn.

Mr. BISHOP. Thank you very much. Actually, I am not back, I am here for the first time. I regret that I was not here to hear the testimony, but ironically I was in a subcommittee meeting at which we had a spirited discussion on maintenance of Davis-Bacon protections. And in my view, Davis-Bacon is one of the instruments of public policy that has both built and maintained the middle class. And so that debate was, I think, apropos of the discussion we are having here.

I was a college administrator before I came to the Congress, and I serve on the Higher Education Subcommittee, and I know that one of the discussions that was taking place this morning was a discussion about increased debt load. And you know that we have just passed a measure that hopefully will ultimately take on the force of law to cut student loan interest rates. But I guess my question is we are going to be reauthorizing the Higher Ed Act hopefully this term, and how would you advise us in terms of what we might want to say to colleges in terms of their obligation to help students with debt counseling, and also what might be their obligations in terms of holding down the indebtedness that college students will encounter? I don't know who to direct that to. Dr. Hacker.

Mr. HACKER. What I can say, I think, very quickly, and then I would like to hear the opinions of the other members of the panel, is that I think that this is an absolutely crucial issue. This increasing debt load is one of the most important reasons, I think, why

people are concerned about the future, their future economic security, because simultaneously we have come to believe and understand that going to college is a critical precondition of success in the market, and yet the cost of college has gone up, and the debt loads are coming up.

I think this is another illustration of the point I was making before to Representative Tierney about how some of the major risks that people take on like debt are often investments in their futures, and therefore I think one thing I would just put on the agenda is this is not just an issue of education or college, but it is also a question about whether or not people have insurance protection, security in their working life, because if they are investing in skills to gain access to the market, then they are taking on a lot of burden and putting themselves at risk at the same time.

It seems to me that for what we know about the effect of debt on student education choices suggest that the greatest cost of rising debt really occurs among moderate-income and lower-income students. We have seen a major decline in Pell grants as a share of the cost of going to college, and there is good research to suggest that dropout rates are influenced by debt loads and financial burdens.

So I think the first order of business has to be focusing on the students most vulnerable in trying to restore some measure of support for college financing at the Federal level.

Ms. APPELBAUM. I think as a country we are going to have to decide what we think will make us more competitive in world markets and whether or not it is worth spending an increasing percentage of our GDP and investing it in, I would say, postsecondary training and education.

As we have heard from Ms. Johnson, I think vocational training is important if it leads to high-skill jobs, community college, higher education. One of the things that we can say is if you went back 20 years ago, you would find that the U.S. was among the leading countries in the number of young people that we graduated with 4-year college degrees. Now, we have held constant our share of college graduates, it has not declined, but in the meantime, other countries, if you think of the U.K., for example, where 20 years ago a university degree was an elite degree, only the elite went to college, it is shocking to find that they have a higher proportion of young people graduating from universities than we do.

So if we think we are in a global marketplace, and we think that higher education is crucial, I think we are going to have to face up to the fact that we are going to have to invest more as a country in higher education in order to enable a larger and larger proportion of our young people, those who come from middle-class families, people of moderate means, to become college graduates.

Mr. WELLER. Let me jump in very quickly here. The numbers suggest that the typical student loan amount has risen pretty much in line with tuition increases, which have been very sharp. The important piece, however, is that we now see more and more people coming out of college with very high debt loads and entering the labor market that has reduced pension coverage, especially for the age group of 25 to 35, so we are already creating the problems of the future. Essentially we are sending people into the labor market

with insufficient resources to prepare themselves for their own future, especially a future where they have to take on more risks than in the past.

Mr. BISHOP. Thank you.

I know one of the concerns I have is if you look at history of higher education in our country, it was essentially elitist until World War II, and then with the advent of the GI bill and subsequently Sputnik and the national investment in postsecondary education, it became egalitarian.

My fear is we are on the precipice of becoming elitist again. I also worry about how debt load influences career choice, and we are in effect pushing kids—I shouldn't say kids—pushing graduates out of perhaps public service careers and into careers that they think will be more beneficial to them financially. I think we suffer as a country as a result.

Ms. APPELBAUM. I agree.

Mr. BISHOP. Thank you.

Ms. WOOLSEY. We have another vote, but we are waiting to hear from our Chairman to see if he still wants to come back. So in the meantime I do have a couple more issues to discuss. One is I don't know if it was Ms. Johnson or Ms. Furchtgott-Roth, maybe it was one of my colleagues, that said something about the professors earn too much, therefore we can't afford to pay our instructors.

Ms. FURCHTGOTT-ROTH. It wasn't me, but we do have a professor here.

Ms. WOOLSEY. We know he doesn't earn too much. He earns every penny that we pay him.

My question would be—and with Ms. Johnson, you know what recruiting challenges are—how do we recruit topnotch professors when they can go to high-tech industry and get five times more and in benefits and the retirement if we don't pay them topnotch salaries? And then along with that, how do we expect the most important product we have in this country, our children, to be educated if we don't pay our educators, our elementary and secondary teachers and then on to junior college, et cetera, pay them a really livable wage? So have at it.

Ms. FURCHTGOTT-ROTH. If I could start, this report: Tough Choices or Tough Times. It is on education. It was authored by a bipartisan commission, including former Secretary of Education Riley; Joel Klein, chancellor of New York State schools, and—New York City school system; and it addresses this very point, and it proposes dramatically increasing the pay of secondary school and elementary school teachers to 45,000 to 110,000 because it says that—it is suggesting that teachers who teach math and science should have B.A.s in math, in science, but right now they are getting attracted into other fields, and we need to make up for that differential. So this is a very real problem on the elementary and secondary school level.

As far as college professors go, there are professors competing to get tenure. It is a very competitive process, and colleges do not seem to have problems attracting qualified professors. But the elementary and secondary school we do have problems attracting people in the math and sciences.

Ms. WOOLSEY. I thank you.

I am going to give the seat back to the Chairman. Mr. Loebsack would be next to ask questions.

Mr. LOEBSACK. Thank you. Catch my breath. I am brand new to the Congress, and I was warned about such situations where I would have to leave and race for votes. So thank you for staying here. Appreciate it very much.

I just have a couple of questions, I guess first a comment. I really appreciate the comments folks made about education not just because I am a college-professor-turned-Congressman of a 4-year college, but we have a lot of community colleges in my district, too, and I think they are just fantastic. The other day when we sent a press release about the student loan rate cuts, my press secretary left out community colleges, and I made certain that she put that back in.

But also I am a person who wouldn't be here today had it not been for the opportunities provided to me. I grew up in poverty myself. I somehow managed to get a Ph.D. And taught at a private college for 24 years. And so the value of education, I think it is fantastic. I am here in Congress today on this committee because of what I have seen happen in the last 6 years in particular. I don't want to give too long a speech as such.

But I do have a couple of questions to ask a couple of you at this point. For example, Dr. Weller, you mentioned something about collective bargaining. Can you elaborate a little bit on that, sort of expanded opportunities along those lines?

Mr. WELLER. I think, importantly, collective bargaining—that the role of collective bargaining has diminished substantially. We used to have over a third of the private sector labor force covered by collective bargaining by union. Now it is less than 8 percent. More collective bargaining would strengthen the tie between productivity growth and compensation growth, which has weakened substantially in the last few years.

I think there is another important role of labor unions, and that is often overlooked. They are an important labor force intermediary. We have talked a lot about education here, and I think education is extremely valuable. Community colleges could play a much bigger role. When workers are faced with a situation where they will lose a job, and we go in and maybe you should get more training, they say, what do I train for; that job is going to leave.

Now training through the union is a different entity because the union has the connections to the employers. He does know where the next few jobs come from, and there is a number of interesting efforts in that regard to strengthen the role of unions to labor market intermediaries, to combine training programs that exist with the needs of employers in various industries where the unions are particularly strong such as the airlines and others, and I think that is an important piece that is often overlooked as a role of collective bargaining.

Mr. LOEBSACK. Trade adjustment, community colleges, the role they play in that as well.

Also, I have a question for you, Dr. Hacker. When you talked about an improved safety net, can you elaborate on what you would mean by that? Are you talking about principally restoring the cuts

that have occurred the last 6 years or so, or something beyond that?

Mr. HACKER. I am really talking about something beyond that. As I said in response to Representative Tierney, I think an improved safety net really has to face up to the central change that has occurred in the framework of economic security we have in the United States, and that is the erosion of employer provision of social benefits, the decline in employer health insurance coverage, and, I think less recognized perhaps but equally important, the shift away from guaranteed defined benefit pension plans towards individual accounts styled defined contribution plans, which have many merits, but do put much more risk onto individual workers, and which the evidence suggests leave middle- and lower-income workers in particular less well protected.

So I think that a safety net has to go beyond simply shoring up the programs we have, just thinking seriously about how we would create a better framework for a more flexible economy in which people can freely move from job to job without worrying about losing their benefits, in which people have—as Dr. Appelbaum mentioned, in which people have two earners in the workforce have some flexibility so if there is a need for one parent to be at home for a period of time, in which we are focused on working-age people, because many of our programs are really focused on the aged, who were at one time the most disadvantaged segment of the population but now have reasonably good protections in many areas.

So I have talked in my work and in my book about a number of options including expanded defined contribution pension plans, like universal 401Ks, improved unemployment benefits that would also perhaps cover some of these family-related events that Dr. Appelbaum referred to; a better health insurance framework.

I think here this is the most obvious place where our system really fails both employers and individuals. It is much too costly, the coverage is too cramped, and we are seeing more and more risk shifting onto individuals, not because I think employers generally have bad motives, but because they are drowning under these costs. To me those are some of the core areas.

Mr. LOEBSAK. One question, Dr. Appelbaum. *Ways and Mean*, I believe, yesterday began to talk about trade promotion authority, fast track. What do you think about an extension of trade promotion authority at this point, because you talked about MMCs and trade.

Ms. APPELBAUM. Sure. I think the fast track would be a mistake. I think we have to seriously consider each trade agreement on its own merits. I am hopeful that going forward we are going to see a lot more attention to labor conditions and to environmental conditions, but in any case I think blanket approval is just not a good idea.

I think we have got quite a few trade agreements out there. We are still struggling to make them work for the American middle class, and we need to go slowly as we go forward.

Mr. LOEBSACK. Thank you all. Yield back my time.

Chairman MILLER. Thank you very much.

If I might take the part of the Chair to have the second round of questioning here, and if one of you is up against a flight schedule, leave.

But just I wanted to just to clarify a couple of issues here. You know, this committee obviously spends an incredible amount of time and energy on education and trying to integrate this into the workplace and do a lot of work with association in advanced manufacturers and the high tech and biotech industry, which really have career ladders available to skills and education and certainly in our State of California, but at the end of the day, in recognizing all of that, and that is what we should be doing and need to do to be more efficient, when you see people running in and out of doors here when you are talking, you wonder what the productivity is.

You know, somebody said we have the numbers and then we sort of had the experience. And, you know, I represent a district that was maybe called the first ring of the suburbs in the San Francisco Bay area in the East Bay. World War II had dramatic growth, dramatic integration of the workforce with steel mills, six oil refineries, chemical facilities and all of the rest of that, and now biotech and high tech and startups and all of the rest of that.

When you talk to people, they simply are in the process of making a series of tradeoffs today, whether they are organized or whether they are unorganized. They have a union or don't. They are trading hours for health care, which they are going to pay more for in this agreement, or they are going to get the same health care and they are going to pay more. Pensions are open to negotiation. They are trading take-home pay for maybe a pension contribution. This is the process of negotiating and employers are in different situations.

But the overwhelming sense, when I talk to my constituents, is that this is an ongoing process of which they are continuing to slide down the ladder. They simply don't have enough money. I attend many conferences on pensions and savings, you know, the industry and advertisers and people participate in. And yes, we, you know, 401(k)s have grown in value since we started 401(k)s. But as a retirement vehicle for a population, a number of people have 401(k)s. They don't appear to be significant. We have to have more incentives. We want automatic enrollment. We want employer contributions. We want all of these things, but the fact of the matter is, it is not there yet for a lot of these people.

And I just, you know, that is what I think many of us see in our districts all of the time when we talk to these families. They are running harder and harder. They are being responsible. You know what they would really like be able to do is educate the kids, make sure they can hold on to their house and have a secure retirement and have the wherewithal to keep their families together. Kind of a modest American dream, but they are telling us they are struggling to do this.

And, you know, these are good jobs, you know, refinery today is an entirely different workplace. It is everybody in that steel mill is going to that school hall. They are going to Pittsburgh, Pennsylvania to school. They are going to Korea to school. They are not about to make another huge investment in that steel mill and it

is going to require everybody in that steel mill to go to school again.

Those are the same people who are making the investment to keep their jobs, and they are telling us, "I am not holding it together, I can't hold it together."

Ms. APPELBAUM. I think the evidence really supports these anecdotes that you are hearing about health care costs are going through the roof. The idea that we hear a lot about it when we think about—when we hear with the Medicare crisis and so on. It is not only in Medicare. Health care coverage is exhausting our companies and exhausting our families so that shifting of the health care costs on to them is reducing people's incomes.

Everyone understands they need to be saving for their retirement. You used to be able to rely on a company pension but you can't. At the end of the week, if you have paid for food and medicine, there is no money left to save. It is not a question that people don't know what they should be doing. It is they can't figure out how they are going to pay for it. Mortgages are high. Food costs are high. College tuition is high. All of the things that people have to pay and to absorb your own health care costs, insurance costs, these are—really it is beyond the ability of middle class families to really support all of this.

Mr. WELLER. I think one of the lessons I have learned is that overall compensation has to keep pace with productivity growth but on the asset building set on the retirement savings, we can make it easier for employers and employees to save money. I think on the pension side, I think there is room to grow that sector and strengthen that sector, making it easier for employers to make regular contributions to the pension plans.

I think the requirements, the regulations are too volatile for employers. We can also make it easier for employees to participate in automatic enrollment and all of the things that were in pension plans.

I think the next thing we have to address is what happens at the end of somebody's career. How do you get people into annuities without really charging them tons of money. I think that is an important challenge. I am hearing proposals there to introduce low-cost annuities. I think we can do it with two steps here. You focus on income growth at the same time that you make it easier for employers to maintain their existing DB plans.

Chairman MILLER. Ms. Johnson, you are on the other side of this. I am sure you hear this in your employees. I assume that from time to time, they want a raise. Do they want a change in whatever that total compensation package is that you offer? What is your sense? I mean—and I am stunned like you are. There are really few—there are really few skilled machine operators in our district, and they are always looking for workers.

Ms. JOHNSON. When we talk about productivity gains, I think that the customer wins, the company wins and the employee wins and this is from a small business perspective because when we buy a new piece of technology that allows us to make that part quicker, faster, cheaper, for our customer. It also creates more capacity so we can bring on more work. It also allows us to promote someone that was working on an older piece of equipment and advances

them and trains them on to a newer piece of equipment so they can command, you know, a higher salary or a pay rate.

Chairman MILLER. What is your sense of when you look at your workers? \$72,000 is a good salary.

Ms. JOHNSON. Then we add 24 percent on top of that in terms of what our total benefit package is as well.

The last 3 years we have provided 8 percent increases in payroll year over year every year for the last 3 years is between 8 percent. The company has absorbed all of our health care cost increases. It is only in the last year that we moved from a \$10 co-payment to a \$15 co-payment so that no other costs we have passed on to our employees.

As a small company, we struggle every single day to keep our employees satisfied, because they are our biggest asset, and they are what makes us great. But we struggle with, for me, a \$120,000 a week payroll. The 24 percent added benefit cost in addition to the cost of doing business in the State of California and some of the constraints that are put on us there. We do offer a 401(k) that we have not yet contributed to, and we are trying to put together a retirement plan more under the lines of a mentoring program. We realize the struggles and the challenges that our employees face and we don't want to lose them, and we just try to be creative every which way that we can.

Chairman MILLER. Thank you.

Mr. Hacker, did you want to comment on this? I thought you were going for your mike. If not, I would recognize Mr. Sarbanes because I am borrowing his time here.

Mr. SARBANES. Thank you, Mr. Chairman.

I just have one question, and Dr. Hacker, you may be in the best position to answer it.

There is the individual personal perspective that we bring to these issues, and Ms. Miller, you spoke beautifully about the perspective, I think is shared by millions of Americans. And that is, you know, individuals are hurting, individual families are hurting and they are being hit between the eyes. But there is another reason to care about what you had to say, that doesn't have to do with you personally. It has to do with the society, and I am interested in what the public investment needs to be to address the issues that are faced by the middle class.

So I am not looking at it from the standpoint of the individual, but rather what is good for the Nation, what is good to strengthen us and to make us more secure, to use your term. Safety and security, that rhetoric has been captured in one arena, but if you think of it in terms of people feeling strong and secure and what that means to our Nation is just as important.

So a classic example, public investment is what you would do, say, the cost of college education with Pell grants and other ways of helping people out. What are some other examples where public investment could make a tremendous difference in terms of building back the strength of the middle class that you could site for us. Two or three or four things that fall into that category.

Mr. HACKER. I think there are two things that can be made, and we have talked today about personal concerns about job security and how strengthened unemployment insurance system or wage in-

surance might help that. We have talked about health care costs and how government could help play a role in addressing those concerns about taking the concerns off of both the employees and employers. And we have talked today about work-family strains that Dr. Appelbaum so eloquently articulated, and how strengthened leave policies or even paid family leave could help.

What I want to say are two things: One is that I don't think that these two perspectives that you articulated are actually different in a fundamental way. We care about our economy because it serves people and it serves, in particular, that great swath of Americans who consider themselves middle class.

So when someone writes me, as one did a while ago, that I am sick of working for the economy, I want an economy that works for me, I actually think that expresses the overall goals that we should have. There is one perspective we should really care about, and that is whether the economy is delivering the well being and security and advancement for our citizens that we all want. And so I think that these are not opposed perspectives.

The other thing I want to just stress is that when we say public investment, almost inevitably we have to think we have to spend, spend, spend. That is something that is very difficult in the current fiscal context. And we know the resources of government are not unlimited and it faces lots of competing choices.

I want to highlight in a lot of areas we are talking about using government in an insurance role that will, in the long term, actually mean our society is not bearing ever escalating burdens for certain things. So for health care, for example, the evidence is clear that if we had broader insurance, that we could also more effectively think about how to control costs and improve the quality of health care in that context.

So too with pensions. There are huge amounts of subsidies and moneys that are being poured into our private pension system and subsidizing 401(k)s. What is the tragedy here is we are still seeing a rising number of Americans who have the retirement at risk. We need to find ways to make those subsidies work better for middle class Americans.

So strengthen both defined benefits, defined contribution plans in ways that I believe can be done without spending huge amounts more but just spending it more effectively and thinking how more government's power can be used to ensure that Americans have are sharing certain key risks in our economy that are common.

So I just want to make that point because I think it is very important that we not lose sight of the fact that a lot of this is, in fact, how government can create broad risk rules so all of us can share in common those rare and horrible risks that really devastate family finances.

Ms. FURCHTGOTT-ROTH. I think he is absolutely right. There are all kinds of chunks of money that this government spends that are not well used. If you look at Federal job training, that is 15 billion. If you give those funds to go to community college, that would be better served. If you take health care, the President's plan, that would level the playing field, allow health insurance plans help the 47 million uninsured that is revenue neutral. That is just another way of reallocating resources.

If you look at education, the proposals for increasing teacher salaries, better standards, that is also fairly relatively neutral because that would mean we don't have to do a lot with the remedial children that we have to do today.

Mr. SARBANES. If you will indulge me for a few more seconds.

I hear in that sort of the notion of, you know, individual choice is trumpeted but that can be—that can serve as a cover for creating a society that is about how people can opt out. And the risk analysis that you provide, I think, is really about how you can create more opportunities for people to opt in and share and spread the burden.

And I particularly like your discussion of what is essentially a pact, a bargain between the government and its people to try to promote a strong economy and promote opportunity. And I will just relate quickly that this was brought home to me a few weeks back, a woman came up to me and she was talking about the cost of higher education. And she is a professional. She lives in Odenton, Maryland. She works in the District of Columbia at one of the Federal agencies. And she has three children who are college age. And she was explaining how difficult it is to pay for this. And then she looked at me and she said, "I did everything they told me I was supposed to do." and she said, "My husband and I work three jobs between us. We saved our money, and we told our children if you work hard and study, you can make it."

And now we can't pay for college. And I think she was reflecting the views of many Americans who say we worked hard, we play by the rules, and we believed in an America that would reward that and now we are finding that it is all a cruel trick. So we have really got to get back to restoring this bargain, this promise with the American people strengthen the middle class and lift up the whole society at the same time.

So thank you for your comments.

Chairman MILLER. Thank you very much.

My apologies for the delays that took place because of the votes. Some of these votes were not scheduled for today but they occurred. I really appreciate you giving us the time that you gave the committee on this. This is the first in a series of hearings on this question of growing and strengthening the middle class in this country, and I hope we would be able to add you to our faculty from both sides of the aisle as we continue this discussion. I am sure at some point it will lead to consideration of policy and legislation. So we would like to be able to continue to call on your talents and your knowledge. And so thank you very much.

And without objection, all members will have 5 legislative days to submit their additional materials for the hearing record, and with that, the committee will stand adjourned.

Thank you again.

[Whereupon, at 1:35 p.m., the committee was adjourned.]

